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**Central-Asia Energy Geoeconomics and Geopolitics: Central Asia's
Pursuit of Sovereignty and Prosperity**

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**Central-Asia Energy Geoeconomics and Geopolitics: Central Asia's
Pursuit of Sovereignty and Prosperity**

by

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Abstract

Central-Asia Energy Geoeconomics and Geopolitics: Central Asia's Pursuit of Sovereignty and Prosperity

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The former-Soviet states that make up Central Asia are among the most challenging group of countries to understand in the twenty-first century geopolitical and geoeconomic context. As one of the last of the world's frontiers, much of this region's energy potential in oil and natural gas has yet to be tapped or, even, be found; and the region's strategic position make Central Asia a significant region for energy markets and global affairs. The last few decades in Central Asia have been shaped by the determination to develop their energy sectors with a balance between attracting foreign energy firms and preserving its authority over its energy assets. States have also struggled to protect their sovereignty over their political and economic affairs from militant, nationalist or sectarian groups as well as from great powers like Russia and China.

In spite of its many challenges, Central Asia has many opportunities to develop those institutions, regional relationships and positive economic and political practices that will promote a productive energy sector and a thriving economy. Central-Asian states must achieve its goals of establishing an energy policy that secures prosperity for all, promoting productive energy relations with all Central-Asian states, reducing undue foreign influence but promoting foreign cooperation that benefits Central-Asia's global relationships, and establishing peace and stability that protect energy infrastructure, production and exports.

The future of Central-Asian energy relations can take many different paths and is dependent on the fate of its neighbors Russia, Afghanistan, South Asia and Iran. Russia's needs for Central Asia's neighbors to become unstable or inhospitable to energy development, but peace in Afghanistan and Pakistan can open new markets for Central Asia; and changes in Iran can unlock new opportunities to ship oil and gas to Western

markets around Russia. For all that the region has endured since independence, the world should apply greater value on this region as its energy prowess and strategic importance make Central Asia an influential player in twenty-first century global relations.

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Chapter 1: Introduction and Background Information

INTRODUCTION: CENTRAL ASIA'S ENERGY POTENTIAL AND CURRENT REALITIES

The events in Central Asia no longer resemble a “great game” between great powers. The countries that make up this region have been struggling to establish total autonomy over their energy affairs. The production and export of oil and gas is the dominant economic activity in Central Asia, and control of the energy sector is the gateway to power in this region. For much of the last century, the Soviet Union forced its will on the region and recovered oil and gas for the benefit of Moscow. After the fall of the Soviet Union, new independent states emerged and no longer needed Moscow to develop its resources.

Though the region may have become politically independent, geography, history and economics obstruct this landlocked region from becoming absolutely free. Energy pipelines that serve as the only main way for states to export oil and gas predominately travel through Russia, which purchases Central-Asian energy at cheap prices and sells it at a significant markup abroad. For much of the last twenty years, Russia also has manipulated global energy dynamics to prevent Central-Asian expansion into foreign markets, like China or Europe. At the same time Central-Asian states have failed to overcome Russian schemes against the region; in fact, Kazakhstan and Turkmenistan had acquiesced to Russian pressure and made deals with the country at a considerable disadvantage to the region, as Chapter 2 discusses. In addition, the poor governance, inefficiency and volatility threaten to weaken the region's energy potential and its future prosperity, as Chapter 3 explains.

Recently, however, Central Asia has shown that it can surmount from its past and from its mistakes and become a free and strong partner in global energy relations.

Chapter 4 shows that Central-Asian states have to achieve certain goals to become prosperous and sovereign over its energy affairs. They need to work together to reduce corruption, to make the region safe for development and export, and to cooperate with the international community in good faith to promote energy diversification that would reduce reliance on Russia and increase overall economic revenue. From the last few years, most notably among their relationships with China, Central-Asian states have achieved much success and have fulfilled many of their mutual goals.

Continuing on this track can potentially lead this region into unprecedented heights, and future global trends can further bolster this region's global prospects. The futures of Russia, India, Afghanistan, Pakistan and Iran will greatly impact Central Asia; but their futures are uncertain. Chapter 5 outlines various scenarios for the countries that surround Central Asia how future events in each area can have profound effects for Central Asia's future. This chapter makes no attempt to predict future events, but shows, through explaining the interaction between Central Asia and the world, that this region will be a crucial factor in this century's geopolitics and geoeconomics.

Being one of the world's last frontiers, the world has only begun to understand Central Asia. Though not a complete account, this paper attempts to contribute to the growing literature on Central-Asian energy developments and on analyzing what the future holds for this enchanting part of the world. Regardless of how the world develops in the twenty-first century, Central Asia will contribute greatly to shaping its future.

GEOLOGY

This section is intended to show some of the findings from the United States Geological Survey, including research from Gregory Ulmishek, and others on the energy reserves in Central Asia and the potential of this region in becoming a global leader in oil

and gas production. This section is not intended to describe all technical features of the region's geology but to show the region's future potential as a global source of energy.

North Caspian Basin

Presently, The North Caspian Basin comprises of 500,000 square kilometers and has experienced less evaluation and production compared to other oil and gas regions in the former Soviet Union; however, this basin has become known as a very valuable base of oil and gas resources. According to Ulmishek, it comprises of a “shallow northern” area of the Caspian Sea and extends onshore between the Volga and Ural rivers and also eastward towards the Mugodzhary Highland on the Ural foldbelt.¹ After the collapse of the USSR, most of this basin is located in present-day Kazakhstan.² Ulmishek also states that, in the center portions of the basin, “sedimentary succession of the basin” is over 20 km thick, which potentially could be a source of a substantial amount of future oil and gas.³

As of 2001, Ulmishek states that the North Caspian Basin has discovered reserves of around 19.7 billion barrels (bbl) of oil and 157 trillion cubic feet (Tcf) of natural gas. In Kazakhstan, these resources are located in the Tengiz, Karachaganak and Kashagan fields in the northern parts of mainland Kazakhstan and in Kazakh sections of the Caspian Sea.⁴ Ulmishek states further that the Northern and Western margins of the basin have been noted as having a “hydrocarbon column” of 1,600 meters, making it one of the

¹ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 1-2.

² Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 3.

³ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 1.

⁴ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 1-2.

“thickest in the world.”⁵ In the southern margins where the supergiant Kashagan is located, it has become a critical area of importance for future oil and gas recovery, and much remains to be seen from this area. Vast potential remains for the discovery of further “medium-sized” oil and gas fields for the next few decades as technology improves.⁶

North Ustyurt Basin in Kazakhstan and Uzbekistan

From Ulmishek’s research, the North Ustyurt Basin stretches from the Caspian Sea in southern Kazakhstan to the Aral Lake in Kazakhstan and Uzbekistan, consisting of around 250,000 square kilometers.⁷ The oil and gas rich locations are separated in three areas, or “petroleum systems,” having, in sum, 2.4 billion barrels of oil and 2.4 Tcf of natural gas.⁸ The Jurassic and younger strata have been the source of most of the drilling in the basin, and the offshore areas of the basin have yet to be explored.⁹ Ulmishek believes that much of the remaining oil and gas that remain unfounded will likely be located in the western portions of southwestern Kazakhstan along the Buzachi Peninsula, near the border with Turkmenistan, as technology improves.¹⁰

⁵ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 21.

⁶ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Caspian Basin, Kazakhstan and Russia.” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/B/b2201-b.pdf>, p. 22-23.

⁷ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Ustyurt Basin, Kazakhstan and Uzbekistan” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/D/b2201-d.pdf>, p. 1, 3.

⁸ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Ustyurt Basin, Kazakhstan and Uzbekistan” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/D/b2201-d.pdf>, p. 2.

⁹ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Ustyurt Basin, Kazakhstan and Uzbekistan” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/D/b2201-d.pdf>, p. 2-3.

¹⁰ Ulmishek, Gregory F. “Petroleum Geology and Resources of the North Ustyurt Basin, Kazakhstan and Uzbekistan” United States Geological Survey. 2001. <http://pubs.usgs.gov/bul/2201/D/b2201-d.pdf>, p. 3.

Amu Darya Basin and Afghan-Tajik Basin Provinces in Turkmenistan, Tajikistan and Uzbekistan

Amu Darya basin is located southwestern Central Asia within Turkmenistan and Uzbekistan with portions reaching Iran and Afghanistan.¹¹ The USGS in 2011 updated their assessment of the Amu Darya Basin and the Afghan-Tajik Basin in southern areas of Central Asia. Based on these new reports, the Amu Darya Basin consists of over 417,000 square kilometers of area and the smaller Afghan-Tajik Basin is over 97,000 square kilometers of area.¹² Both basins were likely created from “compression and deformation” in the late Paleogene to Neogene periods with the “collision of India with the Eurasian continent.”¹³ These two basins have been explored well, and geologists have found oil and gas traps throughout many formations, but not all of the area has been fully explored, especially in areas with significant relief.¹⁴ The USGS reports that the current estimated volume of undiscovered technically recoverable resources in the Amu Darya basin is over 52 Tcf of gas, 962 million barrels of oil and 582 million barrels of natural gas liquids.¹⁵ This data reveal that Turkmenistan and Uzbekistan still have great potential to be an oil and gas export leader even beyond their proved reserves.

¹¹ Ulmishek, Gregory F. “Petroleum Geology and Resources of the Amu-Darya Basin, Turkmenistan, Uzbekistan, Afghanistan, and Iran.” United States Geological Survey. February 2006. http://pubs.usgs.gov/bul/2201/H/pdf/B2201H_508.pdf, p.1.

¹² “Assessment of Undiscovered Oil and Gas Resources of the Amu Darya Basin and Afghan–Tajik Basin Provinces, Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan, 2011.” United States Geological Survey. 2 February 2012. <http://pubs.usgs.gov/fs/2011/3154/report/FS11-3154.pdf>, p. 1.

¹³ “Assessment of Undiscovered Oil and Gas Resources of the Amu Darya Basin and Afghan–Tajik Basin Provinces, Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan, 2011.” United States Geological Survey. 2 February 2012. <http://pubs.usgs.gov/fs/2011/3154/report/FS11-3154.pdf>, p. 1.

¹⁴ “Assessment of Undiscovered Oil and Gas Resources of the Amu Darya Basin and Afghan–Tajik Basin Provinces, Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan, 2011.” United States Geological Survey. 2 February 2012. <http://pubs.usgs.gov/fs/2011/3154/report/FS11-3154.pdf>, p. 2.

¹⁵ “Assessment of Undiscovered Oil and Gas Resources of the Amu Darya Basin and Afghan–Tajik Basin Provinces, Afghanistan, Iran, Tajikistan, Turkmenistan, and Uzbekistan, 2011.” United States Geological Survey. 2 February 2012. <http://pubs.usgs.gov/fs/2011/3154/report/FS11-3154.pdf>, p. 3.

The South Caspian Basin

According to a report from the Baker Institute at Rice University, the South Caspian Basin has the most “proven oil and gas resources” in Central Asia when including Azerbaijan and Iran. The basin stretches 400 km from the Republic of Georgia through Azerbaijan to southern Caspian Sea into inland Turkmenistan, Kazakhstan and Iran. The same report also states the basin has a low geothermal gradient in which the temperature inside the basin only rises 1.5 degrees Celsius for every 100 m of depth.¹⁶ This means that much more oil and gas can be recovered at deeper depths, as deep as 10 km, than in other basins.¹⁷ As technology improves when petroleum from new sources is needed, this basin is projected to produce more oil and gas in previously unexplored areas of the basin.

Middle Caspian Basin and South Mangyshlak Subbasin

The Middle Caspian spans from Azerbaijan and Russia in the west and Kazakhstan to the east. According to Ulmishek, it sits between the Great Caucasus foldbelt, which stretches along present-day Georgia and southern parts of the Republic of Dagestan, Russia, through the center of the Caspian Sea and ends at the South Mangyshlak subbasin in southwestern Kazakhstan.¹⁸ Ulmishek further explains that this basin has four total petroleum systems of which the South Mangyshlak total petroleum

¹⁶ Talwani, Manik, Andrei Belopolsky and Dianne L. Berry. “Unlocking the Assets: Energy and the Future of Central Asia and the Caucasus, Geology and Petroleum Potential of Central Asia.” James A. Baker III Institute for Public Policy of Rice University. April 1998.
<http://www.bakerinstitute.org/publications/geology-and-petroleum-potential-of-the-caspian-sea-region>, p. 3.

¹⁷ Talwani, Manik, Andrei Belopolsky and Dianne L. Berry. Unlocking the Assets: Energy and the Future of Central Asia and the Caucasus, Geology and Petroleum Potential of Central Asia. James A. Baker III Institute for Public Policy of Rice University. April 1998.
<http://www.bakerinstitute.org/publications/geology-and-petroleum-potential-of-the-caspian-sea-region>, p. 3.

¹⁸ Ulmishek, Gregory. "Petroleum Geology and Resources of the Middle Caspian Basin, Former Soviet Union." USGS, Mar. 2001, <http://geology.cr.usgs.gov/pub/bulletins/b2201-a>, p. 1.

system is in onshore and offshore Kazakhstan with over “40 discovered fields.”¹⁹ Despite having many fields discovered in the last few years, much is still unknown about the full energy potential of this basin. If further explorations uncover similar findings in nearby basins, then this basin should further increase the energy reserves and production potential of this region.

OIL AND GAS STATISTICS

The following information and data have been compiled by the consulting firm Business Monitor International (BMI).

Turkmenistan Oil & Gas Reserve Supply and Characteristics

Turkmenistan is a relatively new country in global oil and gas markets as it was closed off by the Soviet Union. Since the fall of the USSR, the country has been shown to have one of the largest supplies of gas reserves in the world. Today, BMI states this relatively small country has over 8 trillion cubic meters (Tcm) of commercially recoverable, proven reserves natural gas.²⁰ The main recent discovery in Turkmenistan’s Amu Darya basin, which has augmented its reserve estimates, has been the finding of the South Yolotan gas field. This gas field was verified of its largesse and title as the “second-largest gas field” by British energy auditor Gaffney, Cline & Associates (GCA).²¹ Via GCA, BMI states that South Yolotan is believed to have between 13.1 and 21.2 Tcm of natural gas, and the government, along with its state energy companies, has increased their overall estimates of gas production and gas exports in line with this new

¹⁹ Ulmishek, Gregory. "Petroleum Geology and Resources of the Middle Caspian Basin, Former Soviet Union." USGS, Mar. 2001, <http://geology.cr.usgs.gov/pub/bulletins/b2201-a>, p. 1.

²⁰ “Turkmenistan—Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 21.

²¹ “Turkmenistan—Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 5.

discovery.²² If Turkmenistan's projections of producing 230 billion cubic meters (bcm) and exporting 180 bcm of natural gas come true, then the country would become one of the most significant gas exporters in the world.²³

According to BMI, Turkmenistan's other gas fields have been extracting gas for over twenty years and have appeared to decline in output, including the Amu-Darya Basin, Murgab Basin and the South Caspian Basin.²⁴ While onshore fields have had great activity, Turkmenistan's offshore plays, along with South Yolotan, hold potential as Turkmenistan's new resources if future trends are favorable to development.²⁵

Uzbekistan Oil & Gas Reserve Supply and Characteristics

Uzbekistan has less oil and gas reserves than either Kazakhstan or Turkmenistan, but the country has significant supplies that are used for domestic consumption and export to sensitive portions of Central and South Asia, including Kyrgyzstan, Tajikistan and Afghanistan. BMI states that Uzbekistan currently has around 171 proven oil and gas fields with the Kokdumalak project in the eastern Bukhara-Khiva region, consisting of around 70 percent of national oil production.²⁶ Its gas reserves are within the "Qashgadaryo province" near Bukhara in the south-central areas of the country and in nearby Surkhandariya province close to the border with Afghanistan where Uzbekistan's largest gas field, the "Boyangora-Gadzhak" field, was found.²⁷

²² "Turkmenistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 5.

²³ "Turkmenistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 5.

²⁴ "Turkmenistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 17.

²⁵ "Turkmenistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 17.

²⁶ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 16.

²⁷ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 16.

BMI reports that in 2011 Uzbekistan generated around 65,000 barrels of crude oil and gas liquids per day (b/d); however, the country lost its status as a net exporter of oil after 2003.²⁸ The country, therefore, imports nearly 100,000 b/d of crude to meet consumption of 160,000 b/d.²⁹ Gas production continues to be above annual consumption at 48 bcm, and the country still produces 65 bcm and exporting a significant portion of it to Russia and to the region.³⁰

BMI states that Uzbekistan currently has around 1.9 Tcm of natural gas reserves with modest chances of further increases in production from 65 bcm to a forecasted 86 bcm by 2016, meaning that, with production and exports continuing, Uzbekistan's gas reserves will likely decline.³¹ Uzbekistan's oil reserves are more modest as the country has had no significant conventional crude-oil field finds for many years. The country has just under 600 million barrels of recoverable oil, which will decline by about 11-12 million barrels per year in accordance to its levels of production, according to BMI projections.³²

Kazakhstan Oil & Gas Reserve Supply and Characteristics

Kazakhstan has the largest oil reserves of all the former-Soviet Central Asian states, mainly due to the size of the country, which give it more opportunities to find energy reserves within its own borders. With current proven oil reserves at 30 billion barrels, recent discoveries of huge fields like Kashagan, BMI projects that reserves will

²⁸ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 16.

²⁹ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 16.

³⁰ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 16.

³¹ "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 18-23.

³² "Uzbekistan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 19-20.

grow by at least 10 billion barrels in the next decade.³³ The country's gas reserves, however, are more modest and mostly consist of unconventional forms of associated gas. From BMI figures, the country has reserves 2.5 Tcm of all forms of gas with the potential of 3.3 Tcm in the next ten years contingent on future successful exploration.³⁴

Kazakhstan's main oil fields are along the Caspian Sea in the North Caspian basin and include Tengiz, Karachaganak and Kashagan. BMI reports that Tengiz has estimates of recoverable crude oil reserves between 6 to 9 billion barrels of oil at an annual production rate of 630,000 b/d of oil and 13.4 bcm of gas in 2008.³⁵ Kazakhstan and the main joint-venture *TengizChevrOil* (TCO) that is in charge of developing Tengiz has committed to increasing annual production by nearly a hundred thousand b/d.³⁶

Karachaganak field is in northern Kazakhstan near its border with Russia near the Russian city of Orenburg. Based on figures from energy firm BG Group, Karachaganak has over 2.4 billion barrels of oil and over 450 bcm of natural gas at a production rate of 106,000 b/d in 2002 and 224,000 b/d in 2009.³⁷ If supply and production figures remain stable, the field should remain productive for at least 40 more years.³⁸

The largest find for Kazakhstan has been the Kashagan oil and gas field in offshore North Caspian Basin. This field is under development and is planned to be

³³ "Kazakhstan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 20-22.

³⁴ "Kazakhstan—Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 21-23.

³⁵ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 44.

³⁶ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 44.

³⁷ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 44.

³⁸ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 44-45.

online by late 2012, which is a date later than the original online date of 2005.³⁹ BMI states that the amount of technically recoverable reserves in Tengiz are currently projected at between 7 to 9 billion bbl and increase to between 9 to 13 billion bbl with advanced technologies like gas injection.⁴⁰ According to KazMunaiGaz (KMG), current production estimates expect that by late 2012, the field should produce 75,000 b/d with a potential increase to 450,000 b/d by 2015 and to 1.5 million b/d by 2021.⁴¹

CENTRAL-ASIAN OIL & GAS PIPELINES

The following section is a summary of the developed, developing and planned major oil and gas pipelines throughout the Central Asian region of the former Soviet Union. This is not intended to be an exhaustive list or to forecast future pipeline systems, but the pipelines or plans thereof are intended to highlight the complexity and strategy of the current pipeline system and of potential future pipelines.

East-West Interconnector Pipeline (Under Construction)

According to BMI, this pipeline started development in May 2010 and is designed to transport gas from the newly discovered South Yolotan field to the Caspian port city of Turkmenbashi.⁴² The estimated cost will likely be \$2 billion, which will be undertaken solely by Turkmen firms with a target startup date for 2015. Once completed, the pipeline

³⁹ “Kazakhstan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 43.

⁴⁰ “Kazakhstan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 43.

⁴¹ “Kazakhstan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 43.

⁴² “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 28.

is anticipated to deliver 30 bcm per year and will follow a similar route to that of a current pipeline from Dauletabad field to Turkmenbashi.⁴³

Central Asia-China Gas Pipeline

This pipeline was christened in December 2009 when the presidents of China, Turkmenistan, Kazakhstan and Uzbekistan joined together in a ceremony to commemorate its start into service.⁴⁴ With a length of around 7,000 km, the pipeline transports gas from the Yolotan and Sag Kenar gas fields in northeastern Turkmenistan near the Uzbek border through Uzbekistan, Kazakhstan and ending in China currently with a terminus in the northwestern Xinjiang region.⁴⁵

This pipeline is the first to connect directly from Turkmenistan to China, and this pipeline system is independent of Russian supply or Russian pipeline control.⁴⁶ BMI states that, in the first moments of operation, this pipeline was planned to ship nearly 13 bcm of gas, but only 2.38 bcm of gas reached China from January through August 2010 through this pipeline from Turkmen sources, according to Chinese statistics. In 2011, however, BMI shows that gas imports from Turkmenistan were over 5.7 bcm, a quick increase beyond Chinese expectations.⁴⁷ Furthermore, Turkmen president Gurbanguly Berdymukhamedow signed an agreement with China on November 2011 that would dramatically expand gas exports to China from 25 bcm per year to 65 bcm per year.⁴⁸

⁴³ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 28.

⁴⁴ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁴⁵ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁴⁶ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁴⁷ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁴⁸ “Turkmenistan —Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 29.

BMI suggests that, if executed identically to the agreement, a significant portion of Turkmen gas supplies could be exported to China and could add Turkmen leverage against Russia in the near future.⁴⁹

Central Asia-Center Pipeline (CAC)

This pipeline was the most important gas pipeline from Central Asia to Russia throughout the Soviet Union and was the only means for the Central-Asian satellites to export their gas supplies to the world. Recently, this pipeline had exports halted after a mysterious explosion damaged the pipeline in April 2009.⁵⁰ Since January 2010, gas now runs from Turkmenistan to Russia through CAC at a contracted amount of 30 bcm per year from 2010 to 2028.⁵¹ The pipeline flows from Uzbekistan's Shatlyk field to Khiva.⁵² From there, it travels through Kazakhstan to Russia.⁵³ BMI reports that it has recently only reached around 35-40 bcm of gas deliveries per year, but the pipeline is currently under renovations that began in 2008, which should raise potential maximum capacity back to around 60 bcm.⁵⁴

Turkmenistan-Afghanistan-Pakistan-India (TAPI) (Proposed)

A pipeline that has been proposed multiple times since the 1990s, Turkmenistan and neighboring countries have, once again, showed official commitment to build this

⁴⁹ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁵⁰ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 29-30.

⁵¹ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 29-30.

⁵² "Uzbekistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁵³ "Uzbekistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 29.

⁵⁴ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 32.

pipeline connecting Turkmenistan with South Asian states. BMI reports that, in November 2011, Turkmenistan signed a Gas Sales Purchase Agreement (GSPA) with Pakistan an initial amount of \$7.6 billion for finally building the TAPI gas pipeline.⁵⁵ The pipeline is expected to be online on December 2016, being reliant on the security situation in Afghanistan improving. If plans proceed uninterrupted, Afghanistan will get 5.2 bcm of gas year while the pipeline will have a maximum supply of 33 bcm per year.⁵⁶ The pipeline would transmit gas from Dauletabad field through Afghanistan, Pakistan and India.⁵⁷

Caspian Pipeline Consortium (CPC) Oil Pipeline

The CPC is a 1,500 km pipeline that became a vital pipeline system linking north-Caspian fields in Kazakhstan to Novorossiysk, Russia on the Black Sea.⁵⁸ Initially, the network included tankers delivering Kazakh crude through the Caspian to pipeline networks ending in Novorossiysk. Today, the CPC operates completely on one pipeline that carries around 560,000 b/d, and all the consortium's members, ranging from American IOCs to Russian and Kazakh NOCs and manufacturing firms, agreed to expand pipeline volume to 1.4 or 1.5 million b/d.⁵⁹

⁵⁵ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 30.

⁵⁶ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 30.

⁵⁷ "Turkmenistan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 30.

⁵⁸ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 30.

⁵⁹ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 30.

Baku-Tbilisi-Ceyhan (BTC) Pipeline and Kazakh Caspian Transport System (KCTS)

Azerbaijan and Kazakhstan signed an agreement on June 16, 2008 to ship Kazakh oil to Azerbaijan for the BTC pipeline.⁶⁰ This pipeline is known as one of the most strategic oil pipelines in the world as it was fully online in in the mid-2000s and bypasses Russia by supplying Caspian crude oil to markets in Europe. In November 2008, Kazakhstan began sending crude oil from Tengiz field to the BTC pipeline, using tankers from Kazakhstan to Azerbaijani ports.⁶¹ BMI states that when the new Kashagan oil field is online by mid-decade, Kazakhstan would like to ship many thousands of barrels a day to contribute to the potential overall capacity of BTC by 760,000 b/d.⁶²

CONSEQUENCES FOR THE REGION

The geology, reserve amounts, existing pipeline infrastructure and plans for new projects show that Central Asia has much potential into becoming one of the world's most important sources of energy for this century. This region is unique from other parts of the world because it must find ways to export energy that require the help of other countries. For Central Asia, they need help; but their battle is to engage with the world without surrendering what they gained when the Soviet Union fell.

⁶⁰ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 31.

⁶¹ "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 31.

⁶² "Kazakhstan —Oil & Gas Report, Q2 2012." Business Monitor Online. Business Monitor International, February 2012, p. 31.

Chapter 2: History of Central Asia's Post-Soviet Energy Sector

INTRODUCTION

Central Asia contains the energy resources and the pipeline infrastructure to use as a foundation to become a major energy-producing region in the 21st century. This future potential, however, is not enough to guarantee this region's success going forward. The history concerning the development of its energy policy since the fall of the Soviet Union has greatly impacted the growth of Kazakhstan, Turkmenistan and Uzbekistan, forcing each of them to remain in Russia's influence in energy matters. Uzbekistan has a unique challenge facing energy producers regionally by having to struggle against Islamist and other radical groups that aim to depose the Uzbek government, which would send the region into crisis. These states have been able to strive through the last twenty years with their regimes intact, though far from reaching their dreams of full energy autonomy. With the recent addition of China entering into the Central Asian markets, all countries could reduce their dependence on Russia for survival; but their Soviet legacy and its diplomatic maneuvers show that Russia will remain a substantial influence over the region.

Based greatly on the research and analysis of Daniel Yergin, Wojciech Ostrowski, Adam N. Stulberg, Luca Anceschi and Minton F. Goldman, this chapter summarizes some of the historical developments of Kazakhstan, Turkmenistan and Uzbekistan. The first section concerns Kazakhstan's political energy history as its president struggles to strengthen his power over the energy sector from elite rivals from the western regions of the country that holds the valuable energy resources. The next section concerns the history of Turkmenistan as its first president promotes a policy of "positive neutrality" that is designed to enable its leader to bolster his authoritarian hold on his country. The

country's energy sector suffers from Russian aggression towards it and from poor domestic management. The final section discusses the history in post-Soviet Uzbekistan that had to strive to preserve its rule from religious and separatist movements that threatened the state. Although Uzbekistan's main historical problems did not involve its energy sector, the instability in and near the country threatened to destabilize all energy relationships in the region. Though a limited number of works here combine the history of the oil industry, security and their relation to the region's political economy, this synopsis is made to stimulate further research on these factors.

KAZAKHSTAN: CONSOLIDATING NAZARBAEV'S CONTROL

As Daniel Yergin chronicles in *The Quest*, upon the fall of the Soviet Union, the leader of the Kazakh Soviet Socialist Republic, Nursultan Nazarbaev, a long-time apparatchik to the Soviet cause, told his colleagues in Moscow that, regardless of how much time and investment the Soviet Union made, the Caspian is now a Kazakh hydrocarbon hub. Even though a former Russian energy minister brazenly declared to the world that "*Eto nasha neft*," or "This is our oil," the Kazakh people now have control of their own energy.¹

Yergin continues to explain that the most prominent example of Kazakhs' anxiety of continued Russian energy relations was the blowout of oil well number 37 at Tengiz oil field in 1985. The blowout still is known to be one of the worst oil spills as Soviet reports told of a flame column of 700 feet above the Caspian Sea that took over a year to put under control.² Soviet technology and knowhow was insufficient to put out the fires,

¹ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 47.

² Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 64

so the Soviets had to call on American IOCs to put out the massive fires and to stop the massive loss of oil.³

Before the last day of the Soviet Union, Mikhail Gorbachev tried to entice Western firms to use its superior skills to renovate its inferior energy infrastructure. According to Yergin, Chevron was one of the companies that accepted Gorbachev's invitation, as the Soviet Union, still in control of Tengiz oil field, only gave Chevron access for rights to develop the field.⁴ Once the fall of the Soviet Union was complete and Nazarbaev assumed control of negotiating the terms of developing Tengiz from Moscow, the new consortium, *TengizChevrOil*, became a joint company consisting of the Kazakh energy establishment and the government and American company Chevron.⁵ According to Ostrowski, the ultimate arrangement was an evenly split joint venture with 80.4% of revenue allocated to Kazakhstan and 19.6% to Chevron through a 40-year period.⁶ Initially, Chevron and the Kazakhs developed a system by which tankers would deliver about 100,000 barrels a day from Atyrau on the northeast coast of the country to Baku, Azerbaijan where crude would be transferred to rail tankers to Odessa, Ukraine.⁷ Kazakh authorities understood that this primitive transport network was not sustainable and a new pipeline would need to be built; but its route would have to include Russia.

Yergin also states that in 1996, Kazakhstan and Russia worked together to create a new consortium, which would be known as the Caspian Pipeline Consortium (CPC)

³ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 64

⁴ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 66.

⁵ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 66.

⁶ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 35.

⁷ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 69-70.

that would build a pipeline from Tengiz around the Caspian coast into Russia and ending at the Russian Black Sea coast where it would be sent on tanker to global markets.⁸ Kazakhstan and Russia managed to bring together Kazakh, Russian and American firms, as well as temporary investment from Oman, to make up the conglomerate.⁹ Yergin explains that even with their disagreements, Kazakhstan and Russia managed to have the pipeline built completely with first supplies being shipped from Tengiz in 2001.¹⁰ Yergin also states this was the first time Kazakhstan was “integrated into the global oil industry” since this oil was being produced specifically for non-Russian/non-Soviet consumption.¹¹

Since then, in a country with a massive amount of recoverable oil and gas supplies, its government has been witness to many delays in developing fields like Kashagan over many years. Some of the delays have been at the fault of the government or of the national oil companies, like KazMunaiGaz. Though these two entities are structurally separated and, sometimes, act differently from each other, each are usually considered as working for the same side, for the Kazakh elite. Kazakh energy institutions evolved to their present state thanks greatly to the Nazarbaev family and this clique that have been the most powerful faction in Kazakh development in defining the country’s future success or failure in developing its energy sector and, within this, its relationship with its foreign energy partners.¹²

⁸ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 68-70.

⁹ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 68-70.

¹⁰ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 69-70.

¹¹ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 69-71.

¹² Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 56-58.

Ostrowski states that, in 1992, the former Soviet organization, Kazakhstan Oil and Gas Corporation was transformed into Kazakhstanmunaigaz, and the government added its own Ministries for “Energy and Fuel Resources” and for “Geology.”¹³ After creating these ministries and the bureaucratic structure to support them, Nazarbaev severed all contracts between the Soviet Union and foreign oil companies, even those with Chevron in Tengiz. In its place, Kazakhstan made its own contracts, which gave rise to *TengizChevrOil*.¹⁴

Secondly, Nazarbaev had to struggle to maintain his influence throughout the country’s energy affairs from political and elite rivals in the oil-rich western parts. Power and influence in Kazakh history has been determined mostly by the struggle among nomadic tribes in the territory. Nazarbaev and his faction belong to a nomadic tribe in Eastern and Southern Kazakhstan, while different tribes have controlled the Western portions where Kazakh energy reserves are located.¹⁵ During the Soviet Union, these internecine conflicts declined, but with Kazakh independence, these rivalries have returned, though not to the extent as in Kazakh history.

Local governments away from Astana and Almaty have therefore been privy to acting independently from Nazarbaev. In fact, leaders will operate in defiance of Nazarbaev if the local region finds that their decisions are more in their local interests at the expense of the national interest.¹⁶ In response to what would be disobedience to the president, Nazarbaev took measures to preserve his control in the early 1990s in many undemocratic ways. According to Ostrowski, he dissolved parliament and invented a new constitution, which was adopted on August 30, 1995, affording him new executive

¹³ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 32.

¹⁴ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 35.

¹⁵ Hanks, Reuel R. *Global Security Watch--Central Asia*. Santa Barbara, CA: Praeger, 2010, p. 61.

¹⁶ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 46.

powers while reducing legislative powers from elected officials who come from regions that are less loyal to Nazarbaev's political contingency.¹⁷

One main economic motivation for Nazarbaev's maneuvers was that his rivals wanted to accelerate privatization of the Kazakh energy sector, including the Kazakh energy bureaucracy. From this concern, his changes to the political structure of the national government were not enough. Therefore, Nazarbaev signed Decree #3378, "Additional Measures to Reform the Organization of State Entities in the Republic of Kazakhstan," which eliminated numerous governmental departments including the ministries of Geology and Oil & Gas.¹⁸ Replacing them was the establishment of a new National Oil Company (NOC), named the KazakhOil National Oil and Gas Company.¹⁹ Not only had creating an NOC further solidified Nazarbaev's control over the most important economic sector in the economy; it also undermined his rivals' aspirations to have a private energy sector in local control.

Later on February 20, 2002, Nazarbaev created a new NOC known as KazMunaiGaz (KMG) from a merger of KazakhOil and the "National Company Transportation of Oil and Gas" (CJSC).²⁰ Nazarbaev made this change in order to reform relations between the national government and foreign and domestic energy firms where the previous configuration failed to benefit Nazarbaev's interests. Furthermore, Nazarbaev gave into the demands of the "local bourgeoisie" in energy projects in western Kazakhstan and confirmed that his rivals in other regions will not be subordinate to

¹⁷ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 46.

¹⁸ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 47-48.

¹⁹ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 47-48.

²⁰ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 57.

foreign energy companies: “[F]oreigners should forget about being a ‘big brother’ and should settle for being junior partners.”²¹

Russia and Kazakhstan: Working with its Former Master

For much of the post-Soviet relationship between Russia and Kazakhstan, Russia had exploited Kazakhstan’s limited choices in exporting its energy supply through creating trade contracts heavily in favor of Russia. While oil trade is largely immune from severe arbitrage between a supply country and a transit state, natural-gas markets remain susceptible to such trade imbalances. For example, in 2006 Russia obtained gas from states like Kazakhstan for around \$100 per 1,000 cubic meters; but Russia sold the same amount to Europe at a substantial markup of \$265 or \$285.²² All the windfalls from purchase to sale go directly to Russia without any benefit to Kazakhstan. With few alternatives to Russian supply chains, Kazakhstan has been forced to sell its gas at a lower price while customers in Europe have been able to sell its gas at a higher price.

For Gazprom and Russia, Kazakhstan remains a large source of revenue in a country that needed more “petrodollars” in order to develop Russia’s economy, to increase Putin’s popularity at home, to bolster Russian influence abroad and to reduce Kazakh autonomy in its domestic energy affairs. Their dominance, however, was not inevitable and required masterful diplomacy from the Kremlin and from its energy companies since Nazarbaev, though raised a Soviet apparatchik, was developing energy policy in his best interests, including unmooring the country from Russia if it were in Kazakhstan’s best interests.

²¹ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 57.

²² “Pipeline Politics Achieving Energy Security in the OSCE Region: Hearing before the Commission on Security and Cooperation in Europe.” One Hundred Tenth Congress, First Session, June 25, 2007. Washington: U.S. G.P.O., 2010, p. 41.

In the 1990s, while the Kazakh energy leadership was feeling confident about their potential energy independence from Russia, the Russians developed a strategy to convince, not to force, Kazakhstan to remain loyal to Russian energy interests.²³ Russia was aiming for the “status quo,” and, in persuading its former Soviet satellite that staying with Russia was the best option, explained to Nazarbaev that the “status quo” with Russia was the only viable option for them.²⁴ First, Stulberg explains how Russia developed its existing market power in energy markets, upstream and downstream, and its regulatory power to reduce the incentives, financially and politically, for Kazakhstan to shrink its energy relationship with Russia or to expand other relationships beyond Russia.²⁵

Russia provided incentives to Kazakhstan to reduce the transit fees that Kazakhstan would pay to Russia for transmitting natural gas northward and to increase the amount of oil and gas Russia would purchase from Kazakhstan. These actions would reduce the insecurity Kazakhs were facing during the collapse of the Soviet energy market system, and Russia’s policies would reduce the need for Nazarbaev to accelerate energy deals with China or the West.²⁶ Russia also developed gas relationships with Kazakhstan’s potential new customers, like China and Turkey, in order to preclude Kazakh energy markets from entering into these foreign markets. Russia would sell gas at a much cheaper price, akin to the practice of “dumping,” and to promote pipeline projects from Russia to foreign markets that would erase the need for other gas sources for long

²³ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 118.

²⁴ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 118.

²⁵ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 118-119.

²⁶ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 118.

periods.²⁷ Since Kazakhstan had a much reduced ability to recruit capital and to develop energy projects with other states compared to Russia, Kazakhstan eventually saw that its options for developing robust relationships with new markets would quickly vanish as soon as Russia made sweeter deals to regional energy consumers.²⁸

With Russia disrupting Kazakh ambitions, Kazakhstan had no other country that could help to counterbalance Russia's tough energy diplomacy. Although the U.S. and the West were reaching out to Kazakhstan and Western IOC's were active in the country, Western governments were busy on creating the "deal of the century" with Azerbaijan, Georgia and Turkey in securing the development of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the subsequent Baku-Tbilisi-Erzurum gas pipeline (BTE).²⁹ China was too small an economy and had too young an energy sector to assist Kazakhstan with its energy exports, though it would quickly expand not long thereafter. Central-Asian neighbors Turkmenistan and Uzbekistan were too volatile and too unstable to help Kazakhstan spread to southern markets in Iran and South Asia. With these options untenable and Russia's energy machinations, Kazakhstan ultimately was "convinced" that sticking with Russia was in Kazakhstan's best interests.³⁰

As a consolation for Kazakhstan, solidifying relations with Russia had the effect to alleviate any tension with Russia created after the collapse of the Soviet Union and assured Kazakhstan that it will have a stable market for its supplies without having to invest in massive infrastructure to generate trade. As of the late 2000s, over 90% of its

²⁷ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 96.

²⁸ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 122-123.

²⁹ Johnson, Robert. *Oil, Islam and Conflict: Central Asia since 1945*. London: Reaktion, 2007, p. 206-207.

³⁰ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 124-125

gas exports went through Russian pipelines like the Central-Asia Center pipeline.³¹ From the 1990s, China has entered the Kazakh markets with collaboration with oil and gas projects and, most notably, with the construction of pipelines, like the Kazakhstan-China Pipeline from Western Kazakh fields to China's Xinjiang region, commissioned in the mid to late 2000s.³² Nevertheless, Chinese assistance and demand for Kazakh energy products have not allowed Nazarbaev or energy firms in Kazakhstan to reduce significant reliance on Russia or to renegotiate energy contracts in Kazakhstan's favor. Russia's tough energy diplomacy was largely effective in keeping Kazakhstan in Russia's sphere of influence in the first twenty years of Kazakh independence.

TURKMENISTAN: UNCONVENTIONAL LEADERSHIP AND "POSITIVE NEUTRALITY"

After achieving independence, Turkmenistan and its autocratic leader Saparmurat Niyazov declared his country's foreign policy will pursue a doctrine called "positive neutrality."³³ According to Anceschi, this approach was intended to observe a policy of "non-interference" in others' national affairs of other states and not passing judgment on the legitimacy or integrity of other states. At the same time, Turkmenistan stated that it would "openly and fairly cooperate with all the countries which try to achieve noble objectives" without specifically specifying what "objectives" Turkmenistan wishes to achieve.³⁴ In the 1990s Niyazov and other Turkmen authorities had difficulty determining

³¹ Garrison, Jean A. *China and the Energy Equation in Asia: The Determinants of Policy Choice*. Boulder, CO: FirstForumPress, 2009, p. 49.

³² Garrison, Jean A. *China and the Energy Equation in Asia: The Determinants of Policy Choice*. Boulder, CO: FirstForumPress, 2009, p. 47-49.

³³ "Nejtralitet Turkmenistana: Istorija, Mirovozzrenie I Gosudarstvennaja Strategija." *Turkmenistan.ru*, 1 Dec. 2000,

http://www.turkmenistan.ru/?page_id=4&lang_id=ru&elem_id=817&type=event&sort=date_desc.

³⁴ Anceschi, Luca. *Turkmenistan's Foreign Policy: Positive Neutrality and the Consolidation of the Turkmen Regime*. London: Routledge, 2009, p. 23

what its foreign-policy goals were since its political economy had little to offer to the world beside energy.

Niyazov, the former head of the Turkmen Soviet Republic, was the leader of Turkmenistan until his death in 2006. During his time as leader, he led a government in which he was the undisputed leader, creating a cult of personality that included gold statues erected in his name and months of the year named after his family. He also required schoolchildren read the book *Ruhnama*, or *The Book of the Soul*, which was noted as a type of “spiritual guide” that perpetuated Niyazov’s cult of personality and replaced education in traditional subjects like math and sciences.³⁵ Niyazov also was infamous for human-rights abuses, including repression against freedom of speech and political opposition. With this record, Niyazov’s foreign policy of “positive neutrality” was a policy to protect the country from condemnation from its neighbors since they would most likely work with Turkmenistan, despite its reputation, as long as Niyazov is quiet on other states’ domestic affairs.

This included refusing to join most international organizations, especially Central-Asian regional organizations. In lieu of joining regional organizations, Turkmenistan adamantly publicized its policy of neutrality and its adherence to universally accepted treaties like the UN Charter.³⁶ The country went so far as to submit a resolution into the UN General Assembly, which passed on accession, which declared that Turkmenistan was a neutral state. Despite the seemingly conciliatory approach to the world, Turkmen neutrality had a domestic-policy objective.

³⁵ “V Turkmenii napishut novuju “Ruhnamu.” Lenta.ru, 6 Sept. 2011, <http://lenta.ru/news/2011/09/06/turkmen/>.

³⁶ Anceschi, Luca. *Turkmenistan's Foreign Policy: Positive Neutrality and the Consolidation of the Turkmen Regime*. London: Routledge, 2009, p. 28

As Anceschi explains, “positive neutrality” was a form of absolution of judgment against others was intended to protect Niyazov as he consolidated the energy sector in his own interests, taking advantage to Russia’s apathy to Niyazov’s human-rights record and the West’s indifference toward this small country’s affairs.³⁷ In this case, Niyazov’s use of foreign-policy neutrality worked sufficiently well in diverting the world’s attention from Turkmen political and economic repression for many years.

Beyond domestic affairs, Turkmen firm neutrality did not noticeably help its interests. One analyst on Turkmen affairs, Gregory Gleason, states that Turkmen “positive neutrality” had some energy-policy objectives, such as finding new pipeline routes for gas exports and to recruit foreign investment.³⁸ Western governments and energy firms, however, were busy with other concerns. For example, Western governments were more preoccupied to other regions in the world, like the Balkans and Russia, than with Turkmen policy.³⁹ Energy firms were busy with projects in the rest of the former Soviet Union such as Russia, Kazakhstan and Azerbaijan. In fact, the 1990s saw a steep decline in energy prices, which reduced further the interest in energy firms wanting to enter frontier markets, such as Turkmenistan. Knowing that the world was unlikely to work with Niyazov, Russia took advantage of this combination of neutrality and apathy to exploit Turkmenistan’s vulnerable energy position, like Kazakhstan’s, to preserve its influence over this state.

Like Kazakhstan, Turkmenistan was motivated with its newfound independence and export potential, but Russian energy diplomacy was working to preserve Russian

³⁷ Anceschi, Luca. *Turkmenistan's Foreign Policy: Positive Neutrality and the Consolidation of the Turkmen Regime*. London: Routledge, 2009, p. 31.

³⁸ Anceschi, Luca. *Turkmenistan's Foreign Policy: Positive Neutrality and the Consolidation of the Turkmen Regime*. London: Routledge, 2009, p. 63.

³⁹ Anceschi, Luca. *Turkmenistan's Foreign Policy: Positive Neutrality and the Consolidation of the Turkmen Regime*. London: Routledge, 2009, p. 31.

influence there with much more aggressive actions toward Niyazov than to Nazarbaev. According to Stulberg, starting only a few years after independence, Turkmenistan started seeing its energy revenues begin to plummet, resulting from declining demand to European markets controlled by Russia to which the vast majority of Turkmen gas went through Russian pipelines to these markets.⁴⁰ Stulberg goes further to say that from 1993 to 1998 the country had many years of anemic economic growth and development with disappointing employment, GDP and civil-society figures that defined the perilous state of the Turkmen regime; and, at the same time, the Turkmen gas industry experienced severe drops in gas production and income from exports, which included outright Russian embargoes on Turkmen imports for many years.⁴¹

Like with Kazakhstan, Russia manipulated energy markets in key Turkmen potential energy clients. Stulberg explains that, in Western Europe, Russia expanded supply to these customers from its own reserves and by procuring new natural-gas contracts with Western customers, thereby preventing Turkmenistan from developing projects or signing energy agreements without Russian involvement. As a result, Russia agreed to supply 60% of EU natural-gas demand growth through the early 2000s.⁴² Outside Europe, “Russia also exploited its global market power” in other energy markets by working with Turkey and Iran on new projects before Turkmenistan could make an impression.⁴³ One such project was the “Blue-Stream pipeline” from Russian reserves that traveled through the Black Sea to Turkey, which had its first agreement secured in

⁴⁰ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 103-105.

⁴¹ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 105-106.

⁴² Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 106.

⁴³ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 107.

1997.⁴⁴ In Iran, Russia was able to use its diplomatic relationship to persuade Iran not to develop any broad projects with its northeastern neighbor in order to preserve Iran's relationship with Russia, which was integral to its other ambitions, like nuclear technology and resisting Western pressure against the Islamic regime.⁴⁵

With reduced revenues from existing energy exports and the lack of opportunities outside Russia to find new markets, Niyazov was increasingly enraged over the loss of outlets to sell gas outside Russia, especially to its Iranian neighbor. Having nowhere else to turn their resources or their diplomacy, Niyazov begrudgingly tried to make a deal with Russia.⁴⁶ Even with aggressive Turkmen negotiating tactics, Niyazov compromised on a 25-year contract that sold two Tcm to Russia at deeply discounted prices from 2003, benefiting Russia and damaging Turkmen interests.⁴⁷

From recent years, much of Turkmenistan's exports go through Russian pipelines at discounted rates paid to Turkmenistan from Russia.⁴⁸ Recently, however, China has been active in Turkmenistan, located furthest from the closest Chinese energy markets in the Xinjiang region. Turkmenistan's relationship with China accelerated with the agreement to construct a gas pipeline with Kazakhstan, Uzbekistan and Turkmenistan in 2006 in what would become the Central Asia-China pipeline, which initiated service in

⁴⁴ Ilhan Oguz Akdemir, "Global energy circulation, Turkey's geographical location and petropolitics, Procedia," *Social and Behavioral Sciences*, Volume 19, 2011, p. 74.

⁴⁵ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 107-109.

⁴⁶ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 110.

⁴⁷ Stulberg, Adam N. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: State University of New York, 2007, p. 115.

⁴⁸ Blank, Stephen. *Turkmenistan and Central Asia after Niyazov*. Carlisle, PA: Strategic Studies Institute, U.S. Army War College, 2007, p. 32.

2010.⁴⁹ This new pipeline will add much needed revenues for Ashgabat, and this project is a step in reducing Turkmen dependency on Russian energy revenues for regime survival.

UZBEKISTAN: REDUCING VOLATILITY HERE TO PROTECT ENERGY IN THE REGION

Uzbekistan and its president Islam Karimov does not have the same energy potential as either Kazakhstan or Turkmenistan have, but this country is the transit point of many important regional pipelines like the Central Asia-Center pipeline and the Central Asia-China pipeline. With its substantially larger population at over 28 million people at a median age of 26, the country is vulnerable to internal instability by ethnic tension or sectarian violence endangering energy operations not only in Uzbekistan but also throughout the region.⁵⁰ Karimov's challenges, therefore, are less related to developing its energy sector but to ensuring that his country does not become the source of worsening regional energy relations between the region and the world.

After the fall of the Soviet Union and the rise of independent Uzbekistan, Karimov immediately fought to protect his country and Uzbek nationals living in neighboring states like Kyrgyzstan and Tajikistan, which had been in civil war from 1992 to 1997, where ethnic or sectarian tension threatened to endanger the security of ethnic Uzbeks in Uzbekistan and beyond it. For example, as Goldman explains, nationalists tried to force Uzbeks to read and speak a language other than Uzbek in states like Tajikistan and Kyrgyzstan.⁵¹ Karimov also accused Turkmenistan of persecuting ethnic

⁴⁹ Olcott, Martha Brill. "Central Asia's Oil and Gas Reserves: To Whom Do They Matter?" Hermann, Werner, and Johannes F. Linn. *Central Asia and the Caucasus: At the Crossroads of Eurasia in the 21st Century*. New Delhi: SAGE Publications, 2011, p. 72-73.

⁵⁰ "Uzbekistan." CIA World Factbook, Last Updated 31 July 2012, <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>.

⁵¹ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 118.

Uzbeks under pretexts that they were fomenting unrest. In fact, Turkmen president Saparmurad Niyazov was conveniently accusing Uzbekistan for an assassination attempt on him in 2002.⁵² These and other accusations toward Uzbekistan led its repressive president to use this foreign tension as a pretext to shut down alleged “anti-Uzbek” activity in the region, even by using military pressure.⁵³ With these societal and diplomatic pressures on Karimov, Uzbek relations with most of its Central-Asian neighbors deteriorated greatly in the first decade of post-Soviet independence.

According to Goldman, Karimov had broader ambitions for his country that would make Uzbekistan a prominent force in the region. In order to realize these goals, he had to suppress those movements and powers that would threaten Karimov’s regime, Uzbek diaspora or similar interests in the region. Karimov gave financial support to the Tajik regime to help it resist Islamist efforts to topple the government, which would undermine Uzbek interests region-wide.⁵⁴ Karimov also took advantage of its newfound independence to reduce the influence of Russia in the region by insisting that Russia cede its control over military activities in the region to the separate Central-Asian states or to regional organizations like the Commonwealth of Independent States (CIS).

One other organization that Karimov wanted to use to limit Russian influence in the region was the Central Asian Union (CAU). Karimov conceived this group of Central-Asian states, consisting of Kyrgyzstan, Kazakhstan and Uzbekistan, as Uzbekistan’s attempt to unite Central-Asian policy at the expense Russian influence. Specifically, Karimov wanted the organization to reflect the ideals of the “Turkic

⁵² “Turkmenija vysylaet posla Uzbekistana v svjazi s pokusheniem na prezidenta Nijazova.” *Lenta.ru*, 21 Dec 2002, <http://lenta.ru/world/2002/12/21/turkmen/>.

⁵³ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 119.

⁵⁴ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 119.

peoples” that have inhabited Central Asia for centuries; however, Kyrgyzstan and Turkmenistan were wary of becoming a part of this anti-Russian organization because joining would antagonize Russia, causing Russia to halt trade or military assistance that would directly impact stability.⁵⁵ In part from this fear of provoking Russian retaliation, the CAU has yet to become an influential regional organization or a group that can compete with Russian power.⁵⁶ Uzbekistan also joined the GUUAM group consisting of other former Soviet states of Georgia, Ukraine, Azerbaijan and Moldova, each hoping that this group would compete against Russia- and Kazakhstan-led CIS, but this group also has failed to be a worthy challenger to Russian efforts at regional diplomacy as Uzbekistan withdrew from this group in 2005.⁵⁷

Despite clear signs of Uzbek competition against Russian influence, Karimov maintained good relations with the Russian Federation, mostly on military, security and political matters. Karimov was a supporter of Yeltsin and came to his defense, especially during the Russian political crisis of the early 1993 in which Yeltsin was under threat of a constitutional crisis from Communists and nationalists but prevailed. Karimov wanted to maintain this relationship with Yeltsin in order to continue the arms trade and military cooperation with the Russian Federation as well as the support Russia gave to Uzbek struggles against terrorist and radical factions.⁵⁸ Beyond these endeavors, Uzbek-Russian cooperation in the 1990s did not significantly strengthen economic or energy matters compared to the Soviet era.

⁵⁵ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 19.

⁵⁶ Akhmadov, Erkin. “Uzbekistan: Central Asian Union Destined to Remain on Paper.” Central Asia-Caucasus Institute, 30 Apr. 2008. <http://www.cacianalyst.org/newsite/?q=node/4850/print>.

⁵⁷ “Uzbekistan postavil tochku v svoih otnoshenijah s GUAM.” Lenta.ru, 29 Dec. 2005, <http://lenta.ru/news/2005/12/29/guam/>.

⁵⁸ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 122.

After the September 11 attacks in New York, the American invasion of Afghanistan was a boon for Uzbek military and security operations as well as for relations with the West mostly because the U.S. needed Uzbekistan for efficiently executing its “War on Terror” against the Taliban and terrorist groups. In exchange for hundreds of millions of dollars of trade and aid, Uzbekistan granted the U.S. access to its military bases, like Karshi-Khanabad (K2), virtually unconditionally as well as grant them airspace rights and permission to set up U.S. Central Command (CENTCOM) operations in the country.⁵⁹ In addition to trade and economic aid, Uzbekistan secured from the U.S. a “status of forces” agreement, American support against the Islamic Movement of Uzbekistan (IMU) and American support for the Karimov regime despite criticisms of its human-rights record from Western organizations like Amnesty International.⁶⁰ Uzbekistan also exploited its relationship with America to resist further pressure from Putin’s Russia, which became more assertive of its foreign ambitions than Yeltsin. Mindful of Russia’s influence, Karimov was careful not to be too close to the U.S. that could have incited Russian reprisal.

From Goldman’s analysis, as American operations in Afghanistan continued, Uzbek-American relations became more strained as Karimov continued to operate in ways that put pressure on the U.S. to make its Central-Asian partner to change its ways. Critics continued to assail Karimov for his crackdowns against religious and political freedom in the country. American observers also criticized Karimov for his ties with Iran mainly in order to preserve good relations with fellow Islamic nations. The U.S. feared

⁵⁹ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 123-124.

⁶⁰ “Document - Uzbekistan: Summary of concerns on torture and ill-treatment: Briefing for UN Committee Against Torture.” Amnesty International, 30 Sept. 1999, <http://www.amnesty.org/en/library/asset/EUR62/031/1999/en/6b65a5d8-dfd3-11dd-8e17-69926d493233/eur620311999en.html>.

that pressure from states like Iran and other Islamic states could force Karimov to expel American forces in the name of Muslim solidarity.⁶¹

Uzbek—American relations deteriorated substantially after the Andijon Uprising on May 13, 2005 in which Uzbek forces killed many unarmed demonstrators, ranging from an official count of 187 to activists’ count of around 1,500 deaths.⁶² Uzbekistan’s official rationale for action in this town in the volatile Fergana Valley was to repress activity from terrorist groups the IMU and the Hizb ut-Tahrir (HT) against the government; but others on the incident believe that protesters were incited to protest after the government began its prosecution to 23 businessmen for “religious extremism,” which protesters saw as illegitimate and another affront to their political and religious rights on top of high unemployment and low economic growth.⁶³ Regardless of the actual events leading to and during the Andijon incident, the U.S. was quite critical of Karimov’s actions against its citizens. U.S. Senators and other political leaders were openly questioning the value of America’s partnership with autocratic regimes like Uzbekistan in wake of Andijon, and U.S. officials feared that not being critical against Karimov would hurt American interests in Afghanistan, Iraq and the rest of the “Muslim world.”⁶⁴

Angered by the U.S. response to a domestic dispute, Karimov quickly threatened the U.S. that it would be forced to pay higher fees to use the K2 base and that it could be

⁶¹ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 130.

⁶² Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 130.

⁶³ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 130.

⁶⁴ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 130.

expelled from using it altogether.⁶⁵ According to Goldman, before the Andijon uprising, however, Karimov was concerned that the U.S. presence in the country, which was approaching three years, was hurting his relations with Russia and China and damaging his control over domestic economic activity as American firms and contractors were becoming more entangled in Uzbek operations in the military sphere as well as in the broader economy. Eventually, on July 25, 2005, Karimov ordered U.S. forces out of K2 and the rest of the country within six months of his order.⁶⁶

After American forces left K2, Karimov continued his anti-democratic tendencies by continuing his repressive policies against dissent and unsanctioned religious activities. He was fearful that the American exit would stimulate American plans to oust the Uzbek leader through American collusion with Uzbek-based NGO's. His fears were fueled from American support for the "Tulip Revolution" in nearby Kyrgyzstan and the other "Colored Revolutions" in Ukraine and Georgia during this time. As a result, Karimov suspended NGO activity in the country. He further invigorated his grip on the country when in the December 2007 elections, despite a constitutional requirement that forbids Karimov from serving another term, Karimov ran in and won this election, despite American and international objections.⁶⁷

Russia and China, however, were indifferent of Karimov's actions from 2005, and used the fractures in the American relationship to engage Uzbekistan in improving relations with both states. After the Andijon uprising and the U.S. criticism, Karimov

⁶⁵ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 131.

⁶⁶ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 131.

⁶⁷ "Uzbekistan's elections labeled 'undemocratic'." *Christian Science Monitor*, 26 Dec. 2007, <http://www.csmonitor.com/2007/1226/p11s01-wosc.html>.

flew to China to meet with Chinese president Hu Jintao in late-May 2005.⁶⁸ He then visited Putin in Russia for further support in wake of Western condemnation of the Uzbek regime. Since then, relations with Russia and China have helped to supplement foreign support lost when the Americans withdrew from K2 and reduced other cooperation.

Russia, had been planning for a possible opportunity to improve relations with Karimov years before the Andijon uprising. For example, Putin achieved some headway against American influence in the country through the Samarkand Summit in August 2003. In it Putin and Karimov signed agreements in security, trade and energy. Specifically, both agreed that Gazprom would work with Uzbek firms to develop energy projects in order to increase production and exporting potential. Another meeting in 2004 further bolstered cooperation in these fields, with additional agreements with energy firms Gazprom, Lukoil and Soyuzneftgaz.⁶⁹

From Goldman's research, after the Andijon controversy, Russia and Uzbekistan made military cooperation a priority. Both countries signed a treaty of alliance on November 14, 2005 that codified into international law the shared understanding that an attack on Uzbekistan was an attack on Russia and vice versa.⁷⁰ Both countries also participated in a joint-military exercise in south Uzbekistan in late September 2005, as American troops were preparing their exit from K2.⁷¹ Karimov further excited Russian interests in the region when he agreed to rejoin CSTO and become greater involved with SCO and the Eurasian Economic Community (EEC). This assisted Uzbek security

⁶⁸ "Peregovory Predsedatelja KNR Hu Czin'tao i Prezidenta Uzbekistana Islama Karimova." Posol'stva KNR v RF, 25 May 2005, <http://ru.china-embassy.org/rus/sgxw/t197372.htm>.

⁶⁹ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 140.

⁷⁰ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 142.

⁷¹ Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 142.

interests that were lost in the American diplomatic fallout. With its participation in SCO affairs, Uzbekistan had the support from the organization's "Rapid Deployment Force" that assisted governments on threats to regional security and stability.⁷²

Cooperation with China on security and energy matters has also helped Karimov protect his interests domestically and with his Central-Asian counterparts by working with China to develop its energy infrastructure for delivering energy supplies through the region to foreign consumers and further bolstering its operations against security threats in its country from affecting the entire region. Specifically, China worked with Karimov to develop the Central Asia-China pipeline with the rest of the region. China has also worked with Uzbekistan to develop existing and new energy fields in the country along with new routes from these fields to customers in China.⁷³ Energy cooperation would not be possible without Chinese efforts to strengthen Uzbek security because China, or any other investor, would invest time and money to Uzbekistan in its energy sector without involvement in the country's security.

This balance between energy cooperation and security assurances has shaped much of Uzbek foreign outreach in the last decade; however, Karimov has again become more insistent on maintaining political autonomy from foreign rivals. For example, in 2012, Karimov withdrew his government from the CSTO in part because Russia led a resolution within the organization to forbid foreign governments not in the CSTO to have military operations in any foreign state without approval of all CSTO states, giving Russia a de facto veto on American and Chinese military entry into Central Asia.⁷⁴

⁷² Goldman, Minton F. *Rivalry in Eurasia: Russia, the United States, and the War on Terror*. Santa Barbara, CA: Praeger Security International, 2009, p. 142-143.

⁷³ Olcott, Martha Brill. "Central Asia's Oil and Gas Reserves: To Whom Do They Matter?" from Hermann, Werner, and Johannes F. Linn. *Central Asia and the Caucasus: At the Crossroads of Eurasia in the 21st Century*. New Delhi: SAGE Publications, 2011, p. 72-73.

⁷⁴ "ODKB ob"jasnjaet prichiny vyhoda Uzbekistana iz bloka." BBC Russian, 30 June 2012, http://www.bbc.co.uk/russian/international/2012/06/120629_uzbekistan_odkb_exit.shtml.

Though Russia remains an energy and political partner, Karimov has, once again, reached out to the West on security matters, though not as intensely as before, but is open to rapprochement with the United States government. U.S. and Western firms have been well entrenched in the Uzbek energy sector despite problems in the broader Uzbek-U.S. relationship; and their cooperation in energy and other sectors is most likely to continue for the foreseeable future as Karimov shifts his foreign priorities to hedging against Russian and Chinese influence, regardless of the past challenges between the West and Karimov.

HISTORY AS A GUIDE TO THE REGION'S FUTURE

The countries that make up Central Asia, especially its largest energy producers, underwent many challenges in order to emerge from their Soviet pasts to become independent, sovereign states in the 21st century. The Soviet legacy has been heavy burden for all three countries to wean off dependence on Russian pipeline networks for exporting oil and gas and receiving much needed foreign revenues. Uzbekistan struggled with an additional problem of sectarianism and separatism from Islamist and ethnic factions that want to undermine the Karimov regime, which would send the entire region into turmoil. China's relationships with the three main Central-Asian energy exporters has been a welcome development for the entire region, adding revenues to each regime and creating closer relationships between the region and an emerging economic giant in this century.

After the first decade of the 21st century, Central Asia remains deeply dependent on Russia for its energy policy as a result of the Soviet pipeline legacy and Russian diplomatic maneuvers to preserve its influence over the energy interests of the region. As

this region goes forward, the energy-producing states face many challenges that inhibit them from becoming influential members of the global energy market.

Chapter 3: Challenges to Central-Asian Energy Development

The main challenges to developing Central-Asian energy are often relics from the Soviet era and the first few years after the fall of the Soviet Union. Some of these problems include geography, including the vulnerability of pipelines; terrorism and other threats of instability; corruption and economic mismanagement; inexperience in the global economy due to the region's long history under Soviet rule; and difficulties adapting to the global economy. Central Asian governments cope with these challenges in less ideal ways that usually harken back to the ways of the Soviet Union.¹

These challenges to energy development and the flawed approaches to solve them have stunted growth and prosperity for many years. This chapter will explain the particular challenges and how governments have addressed them if at all. The first section will concern security concerns, including pipeline geography, domestic political unrest and regional sectarian violence, which all endanger energy development. Economic and financial issues are next in which governments and National Oil Companies (NOCs) have shown to be corrupt, inefficient or incompetent in executing good energy policy and business practices. Finally, this chapter will explain how this region, which must interact with the international community to export its energy and to receive foreign revenue, has been vulnerable to being coopted from their regional partners, Russia and China, often through the use of multilateral organizations like the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO). This chapter does not conclude that these challenges are

¹ Peimani, Hooman. *The Caspian Pipeline Dilemma: Political Games and Economic Losses*. Westport, CT: Praeger, 2001, p. 5.

insuperable but that improper action towards them will lead to further problems for the Central-Asian energy sector.

CHALLENGES OF SECURITY

At the moment of independence, Central Asia's energy leaders were already at a disadvantage. They are a landlocked region without a river or sea that has access to an ocean. Its energy infrastructure is dominated by pipelines because it is the only feasible way to ship major amounts of oil and gas to customers abroad, but they almost all went through Russia beginning in the early 1990s. Islamic, ethnic and other separatist groups became encouraged of the possibility of gaining power and influence in a region that lost its main hegemon, the Soviet Union, and replaced it with weaker states without a means to fight them alone. In effect, the fact that Central Asia has not had a collapse in its regional security apparatus has been in some respects a significant accomplishment; but the region's ability to maintain extensive peace and stability has been far from ideal.

Energy pipelines are a dear asset for the energy industry and governments that rely on them to ship their resources to the world. Without them, Central Asia would not have a means to generate an economy worthy of global attention. Since the region is landlocked, Central-Asian pipelines must pass through other states, notably Russia. Russia, in order to profit from the region's geographical handicap, will require all Central-Asian states to pay transit fees for using their national pipelines.² This situation does not include the fact that Russian gas firm Gazprom owns many pipelines in Central Asia, especially Turkmenistan, that have contractual arrangements that give Gazprom a significant share of revenue of oil and gas that travel through Central Asia itself.³

² Johnson, Robert. *Oil, Islam and Conflict: Central Asia since 1945*. London: Reaktion, 2007, p. 206.

³ "Energy and Democracy Oil and Water?: Hearing before the Commission on Security and Cooperation in Europe," One Hundred Tenth Congress, First Session, July 23, 2007. Washington: U.S. G.P.O., 2010, p. 11-12.

Without having a united policy to eliminate Russia's ability to profit from Central Asia's oil and gas at the expense of Central-Asian governments that rely on this revenue for subsistence, existing pipelines will continue to be a "necessary evil" for Central Asia and for its energy-sector development.

Of all the areas of the former Soviet Union, Central Asia has had the least amount of democratization or free-market development in the past twenty years. The Uzbekistan example shows that leaders of these states have been willing to sever valuable foreign relationships to preserve their rule, even if these political entrenchments make a country more reliant on an unscrupulous energy partner, like Russia. As shown in the previous chapter, civil society is not a static factor in the political economy of the region. It has high expectations for selfishly benefiting from the region's energy prowess and the lofty rhetoric coming from the region's rulers. Cities like Astana and Ashgabat are symbols of the newfound wealth that have encapsulated the "boom times" in Central Asia; but many citizens still have not equally experienced a rise in living standards or in security due to the growth in the energy sector. Since the voting system and other traditional forms of public referenda are unpredictable or completely unavailable in the region, citizens have resorted to protests and to violence to voice their displeasure with the ruling class.⁴

Examples of political unrest from civil society exist throughout the region and are easy to find, but, for the sake of highlighting the dangerous proximity between civil unrest and the energy sector, Kazakhstan shows this unwanted intimacy most clearly. The most recent and most prominent example of violence relating to the energy sector was during the Zhanaozen riots of 2011, which coincided with the twentieth anniversary of

⁴ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 90.

Kazakhstan's independence from the Soviet Union.⁵ Zhanaozen is an oil-producing town in the south-western Mangystau Province where oil workers had gone on strike months before the riots over raising pay.

The national government, located in the eastern parts of the country, ruled the strike illegal and ordered the termination of many employees.⁶ One of Nazarbaev's firings was directed towards his son-in-law, Timur Kulibayev, from the top post of the nation's sovereign wealth fund, Samruk-Kazyna, which is one-hundred-percent owner of the state energy firm KazMunaiGaz, which employed the workers who triggered the Zhanaozen riots.⁷ As of 2012, no meaningful reforms in democracy or in transparency had occurred, despite some symbolic gestures to placate international observers. In fact, Kazakh courts have sentenced many alleged leaders of the protest movements and riots to high-level executives, managers, a police officer and workers to multi-year prison terms.⁸ This is an addition to the severe response from the Kazakh government against the rioters at the time of the riots. In addition to the tens of deaths and injuries, Kazakhstan ordered a "state of emergency" in Mangystau province that included an entry/exit blockade and a severing of internet communication and mobile phones for around twenty days.⁹ Kazakhstan and Nazarbaev have clearly shown the world that it will not negotiate over the state of its energy sector with its citizens or energy workers. In the past, however,

⁵ "Den' nezavisimosti otmetili rasstrelom." *Gazeta.ru*, 16 Dec. 2011, <http://www.gazeta.ru/social/2011/12/16/3930914.shtml>.

⁶ "Clashes between police and sacked oil workers in Kazakhstan leave 10 dead." *Guardian*, 16 Dec. 2011, <http://www.guardian.co.uk/world/2011/dec/16/clashes-police-protesters-kazakhstan-dead>.

⁷ "Kazakh leader to sack potential successor over riots." *Telegraph*, 23 Dec. 2011, <http://www.telegraph.co.uk/news/worldnews/asia/kazakhstan/8974884/Kazakh-leader-to-sack-potential-successor-over-riots.html>.

⁸ "Kazakhstan court jails 13 over Zhanaozen riots." *BBCNews*, 4 June 2012, <http://www.bbc.co.uk/news/world-asia-18323805>.

⁹ "Kazakhstan curfew on oil town Zhanaozen after fatal clashes." *BBCNews*, 17 Dec. 2011, <http://www.bbc.co.uk/news/world-asia-16231305>.

Kazakh authorities were willing to exploit civil society and their discontent and aspirations for a better life to their advantage.

From research from Ostrowski, in the late 1990s, with the assistance of local western-Kazakh governments, the workers and general population of western-Kazakh provinces became critical of foreign energy companies, like Chevron, in order to force them to spend money to generate local jobs, local infrastructure projects and other initiatives for the benefit of the Kazakh people.¹⁰ According to Kazakh officials in the western regions, pressure on these companies was effective.¹¹ With the help of civil society, authorities had established an unwritten rule that required foreign companies to allocate funds to officials for the stated use of benefiting the local government's constituents through initiatives like infrastructure projects and job-training programs.¹² For the foreign firms, this was a necessary and bearable cost of business; and the provincial governments greatly benefited because their popularity increased with little effort or financial sacrifice on their part.

The differences between the discontent of the late 1990s and of Zhanaozen in 2012 are well defined. As Ostrowski explains, previous societal pressure from energy employees and society were once stimulated with government help against foreign energy companies.¹³ Recent unrest, which was much more violent, was a clash between society and the government in the energy sector. Though these two instances of unrest are *prima facie* discrete, the manners in which governments use energy to promote their legitimacy at the expense of a foreign energy entity's coerced contributions to society are a tenuous platform to establish a foundation for steady rule. As years progress, society

¹⁰ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 97.

¹¹ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 92.

¹² Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 94-95.

¹³ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 90.

becomes used to the idea that government and energy resources will satisfy its needs and demands unfailingly. Since local government tends to be the most vociferous in taking credit for local development, the people will look towards the government for their praise and scorn. When life for the average person worsens or, even, stagnates in improvement, then people who have little other recourse to voice their concerns will dissent against their political and corporate superiors in ways that get attention.

The events in Zhanaozen appear to show similarity to a society that had grown frustrated with the failures of governmental promises spurred by private-sector assistance. For example, one resident of Zhanaozen stated that the people produce the oil and live in a “dilapidated town” in which the government “promised to do a lot but...haven’t done anything yet.”¹⁴ This sentiment represents much of those who protested and rioted against the government that, at least since the 1990s, had a policy of obliging foreign firms to cooperate with the government. These foundations for governmental legitimacy in the eyes of the people have buckled and, thus, generated political instability in the center of Kazakhstan’s energy wealth. The other energy-rich countries of Turkmenistan and Uzbekistan are worried about the prospects of civil unrest close to their energy sectors, and, without political and economic reforms, repression appears to be the only remedy to this challenge. As long as the relationship among private firms, governments and civil society remain arranged as they have been in western Kazakhstan, the problem of political instability will remain critical in the foreseeable future.

More conventional forms of regional unrest like terrorism and separatism largely remain a challenge for southern Central Asia, including Uzbekistan; but the means by

¹⁴ Lillis, Joanna. “Kazakhstan: Zhanaozen Still Traumatized Three Months After Violence.” *EurasiaNet*, 2 Apr. 2012, <http://www.eurasianet.org/node/65212>.

which these facilitators of instability survive have become more sophisticated. The threats of organizations like the IMU and Hizb ut-Tahrir (HT) to Uzbekistan's government continue to plague Karimov and its ability to develop its energy sector without fear of sabotage or national instability. In recent years, with the poor border security and proliferation of drug manufacturing in Afghanistan, the drug trade and human trafficking have become huge businesses for terrorist groups and other rebel factions in Central Asia.¹⁵ This activity generates billions of dollars and securing significant areas of Central Asia, especially in Tajikistan, where terrorists and rebels can find use their funds and control of land to develop their operations in Central Asia against governments and other forms of recognized authority.

To help Uzbekistan and other states combat these threats, Central-Asian governments along with Russia and China have established task forces under the auspices of multilateral organizations like the CSTO and the SCO; but they have not been sufficient factors in eliminating the menaces as promised. With the United States scheduled to withdraw completely from Afghanistan by mid-decade, Central-Asian challenges to combat the finances of terrorists and rebels will only intensify in the future. If terrorists and other separatists are allowed to proliferate in Central Asia, then other states like Kazakhstan and Turkmenistan, which have no recent history of radicalism from the south, may become vulnerable.¹⁶ As Kazakhstan continues to struggle with the violence and unrest in East Kazakhstan and its neighbors in Xinjiang Province, China, the potential convergence of discrete but similarly threatening forms of instability and chaos will further endanger the prospects of energy development throughout the region.

¹⁵ Hanks, Reuel R. *Global Security Watch--Central Asia*. Santa Barbara, CA: Praeger, 2010, p. 106.

¹⁶ Davis, Elizabeth Van Wie., and Rouben Azizian. *Islam, Oil, and Geopolitics: Central Asia after Sep. 11*. Lanham, MD: Rowman & Littlefield, 2007, p. 19-20.

CHALLENGES OF CORRUPTION AND POOR ECONOMIC MISMANAGEMENT

As stated previously, Central Asia has little experience in business in the global economy that required cooperation with companies and governments under generally accepted principles of transparency, fair competition and the elimination of corruption. Unfortunately, Central-Asian energy firms and governmental counterparts have had many numerous instances of transgressing from ethical business practices and have committed acts of financial corruption, including hiding energy revenues intended for public use in offshore accounts. Though Central-Asian states are not the only ones to be guilty of these unscrupulous practices, continuing behavior in these instances will only impede good relations with the global energy sector that holds the money and technical skills to produce efficiently and to export effectively oil and gas reserves.

For example, Kazakh energy governance is often denoted as a “corporatist” system that is in part a relic of the Soviet characteristics of energy trade between Almaty and Moscow. Based on Ostrowski’s analysis, “corporatism” is a system in which party interests at the elite level strongly influence the objectives charted and the decisions made for a government and its closely connected NOC.¹⁷ In Kazakhstan, where its elites are accustomed to generating energy policy and to forming corporate frameworks in the interest of the single-party platform, this practice of “corporatism” continues during Nazarbaev’s rule. This custom also exists in Turkmenistan and Uzbekistan, where the single-party goals are greatly intertwined with energy policy and relations with energy firms.

The problems with this system is that political-party objectives and those of the energy sectors do not often match, which could lead to internecine elitist strife or societal unrest. When the elites are in conflict, the side with the privilege of “legitimate violence”

¹⁷ Ostrowski, Wojciech. *Politics and Oil in Kazakhstan*. London: Routledge, 2010, p. 23.

often in the form of access to the military usually prevails. In Central Asia, the governments almost always win arguments over energy leaders, as was shown in the Zhanaozen riots in 2011 and the punishments in 2012.

The corporatist system is far from being a constantly beneficial relationship between political interests and business goals, which is why the governments, led by their autocratic rulers, have ensured that family or close confidants are in power in their energy interests. For example, Nazarbaev's son-in-law led Kazakhstan's sovereign wealth fund that was in control of the country's many energy firms before he was sacked after the Zhanaozen riots. The sovereign wealth fund has been undergoing structural changes that include reducing bureaucracy and improving the fund's "strategy" in developing the country's economy.¹⁸

The most recent head of the sovereign wealth fund and the chief advocate of the fund's reforms is Umirzak Shukeev, who, like Nazarbaev, comes from southeastern Kazakhstan and led one of the southern provinces in the country before becoming the head of the nation's sovereign wealth fund.¹⁹ This is important because the historically nomadic Kazakh culture tends to stay loyal to members closest to the regional homelands, and this closeness between Nazarbaev and Shukeev represents how leaders are careful in placing loyal members of the elite in important national positions. Not all countries have consistently been as careful to appoint figures as cautiously as Kazakhstan, but no country in the region has given the responsibility of the energy sector to disloyal figures; and when the integrity of the energy sector is under threat, the heads of state of each government act quickly to make a quick change, even if it is family.

¹⁸" Ja sam udivlen, chto strategii do sih por net." *Kommersant*, 16 Feb. 2012
<http://www.kommersant.ru/doc/1873948>.

¹⁹ "Shukeev Umirzak Estaevich." *Kommersant*, 16 Feb. 2012, <http://kommersant.ru/doc/1874198>.

Continuing this process of sudden changes in leadership could make domestic or foreign energy firms suspicious of the region and its ability to be good energy partners.

Corruption remains a significant problem in Central Asia, and elites often poorly hide their transgressions. For example, one of the earliest forms of corruption associated with the energy sector came from Nazarbaev's relationships with Mobil oil in the 1990s. Mobil's perks to Nazarbaev included access to private estates in the Bahamas and vast financial down payments. For access to the country's oil reserves, Nazarbaev further demanded from Mobil a private jet, a tennis court built for him in Kazakhstan and "four mobile television units for his daughter's" national media empire.²⁰ Besides this atypical form of bribery, Kazakhstan and other states have participated in more conventional acts of corruption.

The most common example of corruption involves the divesting of energy revenues to bank accounts outside the country. In Kazakhstan, international investigators caught Nazarbaev having around \$1 billion stored in a Swiss bank account filled with funds that were intended for public use.²¹ This case is in addition to a series of bank accounts in the British Virgin Islands, Liechtenstein and Switzerland of up to \$78 million that consisted of "fees" paid by foreign firms for their activities in the country.²² The accounts were set up by businessman James Giffen, who had close ties to Kazakhstan, who was tried in the United States for money laundering with a foreign government.²³

²⁰ Johnson, Robert. *Oil, Islam and Conflict: Central Asia since 1945*. London: Reaktion, 2007, p. 37-38.

²¹ "Energy and Democracy Oil and Water? : Hearing before the Commission on Security and Cooperation in Europe, One Hundred Tenth Congress, First Session, July 23, 2007." Washington: U.S. G.P.O., 2010, p. 33.

²² "Energy and Democracy Oil and Water? : Hearing before the Commission on Security and Cooperation in Europe, One Hundred Tenth Congress, First Session, July 23, 2007." Washington: U.S. G.P.O., 2010, p. 32.

²³ "Energy and Democracy Oil and Water? : Hearing before the Commission on Security and Cooperation in Europe, One Hundred Tenth Congress, First Session, July 23, 2007." Washington: U.S. G.P.O., 2010, p. 32.

This scandal, known as “Kazakhgate,” gave post-Soviet Kazakhstan a reputation of a typical energy-rich kleptocratic government that bears similar characteristics of the “Dutch Disease.” As of recent years, Kazakhstan has not lost all its American and Western business relationships, but these and other instances of corrupt behavior force many governments and firms to be restrained from interacting with the country.²⁴

Turkmenistan has had instances of its leaders holding offshore accounts, as well. During the reign of Niyazov, the Turkmen accounting authorities had marked 75% of its energy revenues as “off-budget,” meaning that those funds are not intended for use on public goods or the energy sector. These revenues went to Niyazov’s personal Deutsche Bank account worth from \$2 billion to \$3 billion.²⁵ The investigations surrounding the siphoned funds started after Niyazov’s death. The investigation, supervised by the next president Gurbanguly Berdymukhamedow, led to the arrest of Niyazov’s security chief Akmura Redzhepov and Niyazov’s close business associate Murad Agayev for corruption associated, in part, to the foreign accounts. Redzhepov received a 20 year prison term, and Agayev received a 17-year prison term.²⁶ Since his actions that were an attempt to show his tough stance against corruption, president Berdymukhamedow has resumed his country’s corrupt practices. International observers such as Crude Accountability have alleged that Berdymukhamedow had personally amended energy laws to allow him to have “exclusive authority” to administer energy resources throughout the country as well

²⁴ “Energy and Democracy Oil and Water? : Hearing before the Commission on Security and Cooperation in Europe, One Hundred Tenth Congress, First Session, July 23, 2007.” Washington: U.S. G.P.O., 2010, p. 32-33.

²⁵ “Energy and Democracy Oil and Water? : Hearing before the Commission on Security and Cooperation in Europe, One Hundred Tenth Congress, First Session, July 23, 2007.” Washington: U.S. G.P.O., 2010, p. 31.

²⁶ Daly, John. “Niyazov’s Security Chief Arrested, Hunt Begins for Stolen Funds.” *The Jamestown Foundation*, 6 Aug. 2007, [http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=32926](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32926).

as to resume the practice of offloading over 75% of energy revenues from the federal budget.²⁷

These examples are some of the reasons that Kazakhstan, Uzbekistan and Turkmenistan remain some of the most corrupt countries on earth. According to Transparency International's "Corruption Perceptions Index," Turkmenistan and Uzbekistan are tied as the fifth most corrupt states in the world with Kazakhstan having a comparatively higher rating, though having a poor rating nonetheless.²⁸ With this reputation as a corrupt region of the world, Central Asia's energy producers will continue to struggle with this epithet for many years, even if the countries make honest attempts to suppress corruption. Nevertheless, the symbiotic nature between government and energy sectors, which the leaders use to enrich their lifestyles and to strengthen their power, will keep corruption as a significant Central-Asian challenge in the future.

THREAT OF REGIONAL ORGANIZATIONS COOPTING CENTRAL-ASIAN AUTONOMY

Central Asian states have a mixed impression to multilateral organizations. Turkmenistan, with its policy of "positive neutrality," has refused to join most multilateral organizations. Uzbekistan has been generally welcoming of multilateral organizations but has refused to participate in many instances based on its insistence of protecting its sovereignty. Kazakhstan represents Central Asia's champion of promoting multilateral cooperation throughout Central Asia and beyond. Kazakhstan has embarked on this track to promote its own interests and to establish a global reputation that would make it a separate power from Moscow, but Kazakhstan and the rest of Central Asia are

²⁷ Fitzpatrick, Catherine A. "Turkmenistan: Berdymukhamedov Turning Energy into Slush Fund." *Eurasianet*, 12 Oct. 2011, <http://www.eurasianet.org/node/64307>.

²⁸ "Corruption Perceptions Index 2011." *Transparency International*, <http://cpi.transparency.org/cpi2011/results/>.

vulnerable to being coopted from Central-Asian organizations led by Russia and China, which could compromise the region's energy autonomy.

Kazakhstan's Nursultan Nazarbaev was one of the first post-Soviet leaders to call for organizations to unite the former Soviet Union into multilateral organizations. The first organization to form under this spirit was the Commonwealth of Independent States (CIS) that had gone through many membership changes and, though promoted with high expectations, has been criticized by officials of former-Soviet states as ineffective in promoting Kazakh or other Central-Asian interests throughout the Soviet sphere.²⁹ Nazarbaev then helped to establish the Eurasian Economic Community (EurAsEC) in 1996, which helped to create the Customs Union among Belarus, Russia and Kazakhstan in 2010.³⁰ These organizations and others have helped Kazakhstan's image in the region and the former Soviet Union by displaying itself as a force for unity, but these groups have had little effect in promoting Kazakh interests and strategy against other states. The organizations that have the most potential in conveying influence towards other states are organizations predominately led by Russia and China.

The Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization (CSTO) have each existed for at least ten years first as treaties and then as full organizations. The SCO, started in Shanghai in 1996, consists of all Central-Asian states, except Turkmenistan; China; Russia and many other observers.³¹ This organization concerns itself with security and economic issues. The CSTO is known as a "military alliance" consisting of Central-Asian states except Turkmenistan and, recently,

²⁹ "CIS Ineffective - Burjanadze Tells the Summit." *Civil.ge*, 16 Nov. 2006, <http://www.civil.ge/eng/article.php?id=14099>.

³⁰ "Customs Union given a start at 10th EurAsEC summit." *RT*, 5 July 2010, <http://rt.com/politics/eurasec-summit-customs-union/>.

³¹ "Shanhajskaja organizacija sotrudnichestva (ShOS). Spravka." *RIANovosti*, 31 Jan. 2006, <http://ria.ru/spravka/20060131/43258987.html>.

Uzbekistan but including Belarus.³² While Russia leads the CSTO due to its military superiority, the SCO was a Chinese brainchild and remains mostly a Chinese-led organization based on its economic superiority. Though Central-Asian states make up the majority of members of each organization, the influence within each organization mostly lies outside Central-Asian control, which leaves Central Asia vulnerable to having their domestic affairs under the control of Russian, Chinese or other foreign influence.

Control of military affairs in Central Asia is a powerful means to control Central-Asian states, and Russia stands to benefit the most if the SCO or CSTO are allowed to control regional military relations. Having close military relationships, including having military bases in Central Asia, gives a state like Russia or China a substantial advantage in promoting or protecting energy interests in the region for the benefit of the foreign military power. The SCO, as a military and economic organization, could also bring allow China or Russia to have more control over regional affairs. The main way to promote economic influence through the SCO would be to preclude other foreign economic powers, like India or the U.S., from having a strong presence in Central-Asian economic affairs, including energy affairs. If Russia and China had the ability to develop energy resources like European and American energy firms have, then, perhaps, China and Russia could be able to convince these countries to agree on restrictions to non-SCO approved economic activity. Russia is also unlikely to coerce states to ratify a treaty only allowing Russian and Chinese firms to operate in the region since it knows that removing Western firms would necessarily degrade the regional energy infrastructure and, therefore, reduce the amount of oil and gas going through Russian pipelines. These realities, however, can change; and, as long as the legal, military and economic apparatus

³² “Jeksperty ob istorii sozdanija i jeffektivnosti dejatel'nosti ODKB.” RadioSvoboda, 26 Aug. 2009, <http://www.svobodanews.ru/content/transcript/1807862.html>.

to allow foreign control of Central Asia continue to exist, Central Asian states remain susceptible to foreign control in the future.

This potential problem from entangling foreign alliances is one of the many challenges that endanger regional growth in the energy sector and the rest of the region. The self-inflicted problems of corruption and poor economic management have given the region the unwanted sobriquet of a very corrupt part of the world. Many foreign governments and firms, especially from the West, would be greatly cautious in future relations if these trends in corruption or mismanagement continue. Instability from civil society or from terrorists or separatist factions presents a further challenge to energy production and to the viability of governments. States have resorted to repression and harsh punishment to quash uprisings and other threats to regional peace and stability; but these habits cannot last forever, and states have many opportunities to be able to promote energy development, stability and prosperity without harsh recourse or the need to strengthen entangling alliances with powers that want to seize control over Central Asia. Central Asia will only be able to resolve these challenges and achieve its goals for energy and economic development only through region-wide, constructive measures without significant foreign intrusion. If these Central-Asian challenges are not resolved effectively, then the region will have squandered the potential to be an influential global force in this century.

Chapter 4: Opportunities for Central-Asian States to Promote the Most Effective Energy Policy

Central-Asian states that had been part of the Soviet Union have made great strides to transition from their status as closed societies living at the behest of Moscow to states with greatly increased domestic sovereignty and increased impact on global relations. As noted in the previous chapter, the three main energy states are far from achieving their full potential. Despite these daunting problems, these three states have at their disposal many means to resolve their domestic problems and to develop strategically their energy policies to have the most optimal energy relationship among many markets that ensure domestic autonomy and the prevention of an emerging monopsony market, like Russia.

This chapter will outline the key objectives shared with Kazakhstan, Turkmenistan and Uzbekistan to be viable energy exporters in Central Asia. Then, accounting for the region's challenges, this section will discuss how each state can resolve their challenges so that each state can better achieve their objectives. One avenue by which states can achieve beneficial energy policies is to institute a "multi-vector" policy of which Kazakhstan has been its largest promoter. Then, the section discusses the opportunities the region has to utilize its auspicious geographic location to be an energy "bridge" between East and West and between North and South. In explaining the potential as an energy "bridge," this section will discuss the logistical and economic advantages and challenges in Central Asia's ability to be an energy "bridge" and a "pivot" wedged within Russia, China, South Asia and the West. This chapter will conclude that the region is able to become a base for a strong, productive energy relationship between Central-Asian exporters and foreign consumers that increases the liquidity of the market and the energy-policy autonomy of the Central Asian region.

OBJECTIVES FOR CENTRAL-ASIAN STATES TO ACHIEVE

The Central Asian States, in spite of their separate histories of domestic energy policy, share many common objectives that will not only improve their domestic energy conditions but also contribute to improving the region's collective situations. In order to promote their position on the global energy market, the three main Central-Asian energy producers must be able to achieve their goals of promoting prosperity, developing good intra-regional relations, safeguarding their energy-policy autonomy and maintaining stability. All Central-Asian states, energy producers and others will be able to engage with their neighbors in its own interests and to guide its energy future.

First Objective: Establishing a Regional Energy Policy for All Sectors

First, establishing an energy-policy that promotes prosperity for all people is essential for maintaining security and stability for regional energy policy. The most ideal way to advance this goal is not by permanently issuing remittances permanently to every citizen. This would make the people accustomed to relying on the government's coffers for sustenance; and, on a larger level, this reliance has been shown within governmental operations. As shown in OPEC and in Russia, the states of the CIS, including many Central Asian states, general revenues among oil exporting states are greatly reliant on the price of oil.¹

Because states like Kazakhstan, Uzbekistan and Turkmenistan have not adequately diversified their economies beyond the energy sectors, they have experienced sharp rises and drops in GDP caused by volatile energy markets, leaving Central Asia at the mercy of global demand, especially with regional exports through Russia to Europe.² In addition, the region has remained increasingly reliant on oil and gas to maintain the

¹ Lavrovskiy, Igor. *Rossiia posle neftyanovo buma*. Eksmo, Moscow. 2009, p. 7-10.

² "EC sees Turkmen gas escaping." International Gas Report. Factiva, 26 Mar. 2012.

government's legitimacy and power. If the price of oil and gas are high, then the region becomes prosperous; and if energy revenues decrease either by a reduction in oil prices or from a reduction in energy production occurs, then the country enters into recession or depression and the nation's instability rises.³

Fortunately for these states, simple policies implemented over a long, uninterrupted period can alleviate much of these predicaments. Central Asian states can adopt multi-faceted energy strategies. These include establishing energy funds, or "sovereign wealth funds," with responsible management instead of those which allow for investment abroad and not for needed projects for domestic economic and societal development, as has been seen in Kazakhstan.⁴

The first step would be setting up a strategically planned "sovereign wealth fund," like those of Norway and Russia, that will fund projects and programs over a long-period that secures energy revenues gradual, strategic investment for robust growth of the economy and society. A government could implement another fund that would serve in emergencies to inject emergency reserves to keep essential government services running and to preserve stability when energy revenues plummet, like during the financial crisis of 2008 and 2009.

For many years, Kazakhstan has had a program similar to a sovereign wealth fund to contribute to projects and funds for economic growth and civil society development. After the 2008 collapse of oil prices, however, Kazakhstan found itself having to use its two sovereign wealth funds to inject emergency capital to protect the country from a

³ "Kazakhstan and Central Asia Business Forecast Report." Business Monitor Online. Business Monitor International, 10 Feb. 2012. p. 22-24, 48.

⁴ "Economic Analysis - Successor Question To Weigh On Foreign Investment (Kazakhstan)." Business Monitor Online. Business Monitor International, 29 Feb. 2012, p. 2.

larger economic crisis.⁵ According to Kazakhstan's minister of economic development Kayrat Kelimbetov, has noted that the Kazakh budget often "sterilizes" billions of dollars in energy revenue to these funds, but continue to be an object of last resort in order to stop an economic "vicious circle" during a global crisis, as was the case in 2008.⁶

The case in Kazakhstan represents those of the rest of the region. Any sovereign wealth fund, current or planned, would serve primarily as a means to stop emergencies from exacerbating rather than promoting long-term objectives in the economy and in society. This situation exists because governments are much more interested in preserving stability in the short-term than prosperity in the long-term since the everyday needs of the people because the threats facing the region are much more sensitive to the region's security and stability than in other countries. The riots in Zhanaozen have shown that while Kazakhstan may not have chronic unemployment like other states, frustration and riots in the oil-rich areas can force a government to take this threat seriously.⁷

What helps Kazakhstan, Turkmenistan and, to a lesser extent, Uzbekistan, is that while the governments remain repressive and these often respond to unrest with violent measures, the energy funds amassed over many years provide the means by which to appease the population by providing adequate housing, infrastructure and other services. Though each would require some sovereign funds to be diverted at short notice, the governments can easily afford the projects. One additional way is to utilize foreign direct investment in order to utilize better energy revenues towards the economy and society by wisely attracting and using foreign direct investment for purposes other than energy.

⁵ "Poka idet zaderzhka v otnoshenijah, mesto zanimajut drugie." *Kommersant*, 4 Aug. 2012. <http://www.kommersant.ru/doc/1690589>.

⁶ "Poka idet zaderzhka v otnoshenijah, mesto zanimajut drugie." *Kommersant*, 4 Aug. 2012. <http://www.kommersant.ru/doc/1690589>.

⁷ Kucera, Joshua. "Is Time Ripe for a Kazakh Spring?" *The Diplomat*, 19 Jan. 2012. 12 Mar. 2012. <<http://the-diplomat.com/2012/01/19/time-ripe-for-a-kazakh-spring/>>.

Because Central Asia has vast energy reserves, the energy sector has received around 90% of received foreign direct investment (FDI) while other sectors remain well underfunded.⁸ The key to changing this trend is to use FDI to fund not only energy projects, but also in sectors outside this sector in order to diversify the economy and to allow more citizens to participate in the domestic economy. Though progress has been slow, the region has been able to attract investments outside the energy sector through FDI and other schemes.

For example, Kazakhstan has promoted collaboration in industries like aviation, military, nuclear and manufacturing. For example, currently, like in energy, these projects are publicized as joint ventures between Kazakh groups and foreign firms that have the technology and knowledge in their respective fields. Some of the dual-partnerships bind Russian firms with Kazakhstan; but an increasing number of them originate from other foreign countries, like China, the U.S. and India. In another example, Uzbekistan has been able to get commitments from states like South Korea for investment in “information technology and education.”⁹ These initiatives serve two purposes: to introduce or to reinvigorate new industries and firms into Central Asia and to spread Central-Asian cooperation outside Russia.

Also, more effective energy policies can promote health and peace for people who do not have access to services that oil-rich countries like Norway and Saudi Arabia have. For example, access to basic services, like plumbing and health care is still lacking in many areas of Central Asia, especially away from cities. Good housing and quality of life

⁸ Aizhan, Khoich, and Madiyarova Diana Makaevna. "Impact of Foreign Direct Investment on Economic Growth in Kazakhstan." 2011 International Conference on Sociality and Economics Development (2011): 414-19. <http://www.ipedr.com/vol10/78-S10031.pdf>, p. 414

⁹ Spechler, Dina Rome and Martin C. Spechler, “Uzbekistan among the great powers,” *Communist and Post-Communist Studies*, Volume 42, Issue 3, Sep. 2009, p. 358.

remains elusive, even for those working in the energy industry. To alleviate this problem, countries have the ability to spend energy funds to develop infrastructure, housing and health care facilities that would improve the living situations of their citizens at a nugatory cost compared to broader energy revenues. Uzbekistan has been able to work with the U.S. to collaborate on projects to promote health care and housing, as well as “micro-credit” programs to spread loans to those who would not otherwise afford them.¹⁰ These initiatives would require leadership to forego extra profits toward their personal wealth and to certain “pet projects” or white elephants, but the consequences of eschewing self-gains for societal gains are just as selfish as conventional Central-Asian practice.

People will not appreciate past good deeds if their present conditions are unacceptable, and governments should not rely on the past to legitimize their present or future rule. In these countries in which the government appoints itself as protectors and benefactors of the people, it will be the first institution to which the people will blame first. Wise energy policies would help alleviate this daunting situation.

Objective Two: Promoting Energy Relationships within Central-Asian States

Secondly, Central-Asian states need to develop energy relationships between themselves that give them autonomy from other energy powers and to give them leverage against their energy consumers. Achieving this will prevent the region from being agents of a foreign dominated “tributary system,” like during the Soviet times or what modern Russia wishes to achieve. As previously shown, the region’s governments is already tied together through pipelines and through export and import deals that see oil and gas flow from Central-Asian producers to consumers within the region. Many oil and gas do not

¹⁰ Spechler, Dina Rome and Martin C. Spechler, “Uzbekistan among the great powers,” *Communist and Post-Communist Studies*, Volume 42, Issue 3, Sep. 2009, p. 368.

transport from the region without crossing more than one Central-Asian state, and one oil and gas project could be signed by one Central-Asian state, but the effects will spread throughout the region. Therefore, region-wide cooperation is absolutely essential.

To reiterate, the CAC pipeline was one of the first oil pipelines to link Central Asia to the Soviet pipeline system, commissioned over 35 years ago.¹¹ The only other major regional pipeline that connects all three major Central-Asian energy states to a foreign consumer is the Central Asia-China pipeline commissioned in 2009.¹² The completion of this pipeline is a product of pan-regional cooperation to collaborate with a new partner, China, for the interests of all involved. In order to continue securing projects like Central Asia-China pipeline, all countries must work together transparently and goodheartedly to improve further their energy infrastructure and to preserve energy exports abroad.

Within Central Asia, countries are reliant on each other for their energy needs in a labyrinth pipeline system that sees net energy exporters needing to import oil and gas to populated regions and net energy importers exporting oil and gas to countries that have no meaningful energy assets of their own. As shown, Kazakhstan has been struggling to transport their oil and gas prowess from the energy-rich, unpopulated western regions to the population centers in the East, although the country is striving to construct the transport infrastructure to become self-reliant. The country, however, is working with China to develop a gas pipeline, known as the Beyneu-Bozoy-Akbulak gas pipeline, from western Kazakhstan to its southern regions to connect to the Central Asia-China

¹¹ "Kazakhstan Energy Profile - set to be One Of World's Top 5 Oil Producers in Next Decade." Kazakhstan Newsline. Factiva, 18 Nov. 2010.

¹² Kucera, Joshua. "China Enters the 'Great Game'" *The Diplomat*, 8 Feb. 2010, <<http://the-diplomat.com/2010/02/08/china-enters-asias-great-game/>>.

Pipeline.¹³ For the time being, however, Kazakhstan will remain needing oil and gas from import partners like Russia and Uzbekistan, but the pipeline benefits greatly Kazakhstan's southern neighbors that have the means to expand their pipeline networks to Kazakhstan's new pipeline and build better cooperation.

As the region becomes more integrated with the help of states like China, actors in the region have less to gain by remaining antagonistic, arrogant or intrusive towards each other. For countries like Uzbekistan, which has an older, more complex Soviet-era system has been exporting oil and gas to unstable Kyrgyzstan and Tajikistan, which do not have domestic resources of their own. Uzbekistan is still has a tendency to antagonizing Kyrgyzstan or Tajikistan by demanding higher fees for exporting oil and gas and by cutting off gas exports to either country.¹⁴ In Turkmenistan, its pipeline infrastructure must pass through Kazakhstan and sometimes Uzbekistan in order to reach customers in Russia or in China. From this pipeline configuration, a breakdown in relations between any of these Central-Asian states will be disastrous to the region; therefore, good intraregional relations are critical for a promising energy future for all Central-Asian states.

Fortunately for the region, states have been able to work together to improve their energy situation through mutual collaboration among Central-Asian countries. The most prominent recent example of good intraregional cooperation is the negotiations that led to the Central Asian-China natural-gas pipeline, which, as mentioned, contains lines "A" and "B" as well as a planned third line.¹⁵ Being one of the most ambitious pipeline

¹³ "Kazakhstan's energy development strategy," Oil & Gas of Kazakhstan. Factiva, 28 Dec. 2009.

¹⁴ "Uzbekistan—Oil & Gas Report, Q2 2012," Business Monitor Online. Business Monitor International, 13 Feb. 2012, p. 41-42.

¹⁵ "Uzbekistan—Oil & Gas Report, Q2 2012," Business Monitor Online. Business Monitor International, 13 Feb. 2012, p. 30.

projects since the fall of the Soviet Union, three countries, Kazakhstan, Uzbekistan and Turkmenistan, would all have to agree on all conditions associated with the pipeline, the natural-gas sources for the pipeline and the pipeline's route.

Since then all three transit countries have worked with China to make separate deals to improve the performance of the pipeline and to use the pipeline and the relationship with China to improve a state's domestic energy situation. For example, in 2011, Kazakhstan's KazMunaiGaz recently bought Turkmen natural gas from Chinese CNPC supplies held under agreement in Turkmenistan.¹⁶ This deal alleviates a sudden shortage of Uzbek gas imports. In addition to negotiating the construction of an additional gas pipeline to accompany the Central Asia-China pipeline, Uzbekistan agreed to sell more natural gas from Uzbek sources, to accompany Turkmen gas from Yolotan field.¹⁷ Turkmenistan has been able to use Chinese engineering and funds to continue to develop the natural-gas behemoth. This relationship beginning in 2006 has allowed China to build pipelines and business relationships that have been parlayed into strategic partnerships not only for China's advantage but also to increase cooperation among Central Asian states.

Another achievement in promoting intraregional cooperation was working together to negotiate the pipeline route for the Central Asia-China pipeline. For the transit states, Uzbekistan and Kazakhstan, agreeing to the pipeline's route required regional support and cooperation. For Uzbekistan, the country recently made a deal with China in which the country will supply gas for a newly constructed third pipeline in the Central

¹⁶ Vorotnoy, Igor. "Uzbekskij gaz zamenjat turkmenskimi." *Izvestia Kazakhstan*. 15 Nov. 2011, <http://www.izvestia.kz/node/20186>.

¹⁷ "Uzbekistan to export gas to China in April following 2011 deal." *The Times of Central Asia*. 20 Jan. 2012.

Asia-China pipeline system that will run parallel to the other two pipelines to China.¹⁸ Therefore, as the country will be a transit state for Turkmen gas, it will supply gas to China that will add revenues to the Uzbeks and strengthen relations between China and Uzbekistan.

Kazakhstan, it not only worked with its neighbors to finalize a route within its borders but also achieved an agreement to supply the pipeline with its own gas. To reiterate, China and Kazakhstan plan to complete the Beyneu-Bozoi-Shymkent pipeline from Beyneu in western Kazakhstan to Shymkent in eastern Kazakhstan where it will join with the Central Asia-China pipeline.¹⁹ The pipeline is scheduled for completion in March 2013. As a bonus to Kazakhstan, a sizable portion of transported gas will supply cities in South Kazakhstan that rely on Russian or Uzbek supplies, such as Jambil and Almaty. To quote Kazakhstan's First Vice Prime Minister Umirak Shukeyev, "Our problem of dependence of southern regions on imported gas will be resolved."²⁰ The true extent of obviating foreign supplies notwithstanding, from Chinese investment and cooperation, Kazakhstan has earned a priceless dividend in their participation of the Central Asia-China pipeline.

Once all three parallel lines A, B and C are fully online, China will be receiving at least 60 bcm of natural gas from Turkmenistan, Uzbekistan and Kazakhstan.²¹ This pipeline has been a collaborative effort on the three Central-Asian states that was

¹⁸ "Stroitel'stvo 3-ej fazy gazoprovoda Uzbekistan-Kitaj nachalos'." CentralAsiaOnline, 19 Dec. 2011, <http://centralasiaonline.com/ru/articles/caii/newsbriefs/2011/12/19/newsbrief-10>.

¹⁹ "China to expand energy cooperation with Kazakhstan." *Xinhua*, Factiva, 9 Sep 2011.

²⁰ "Kazakhstan commits \$130M to gas pipeline" *UPI*. 16 Sept. 2011. http://www.upi.com/Business_News/Energy-Resources/2011/09/16/Kazakhstan-commits-130M-to-gas-pipeline/UPI-56621316168700/.

²¹ Hamm, Kathrin et al. "Turkmenistan Natural Gas Outlook 2020: The Chinese Connection." Columbia University's School of International and Public Affairs, Columbia University, 2010-2011. <http://sipa.columbia.edu/academics/workshops/documents/RANDTheFinalCopyIII.pdf>, p. 63.

independent from undue influence from other states like Russia or the United States, and the fact that all three states will ultimately supply the pipeline system is a remarkable achievement in cooperation since the fall of the Soviet Union. Aside from this project, the region still has room to improve.

One case in which Central Asia has yet to find a breakthrough deal despite much effort is related to the Trans-Caspian Pipeline (TCP) negotiations. If completed, this pipeline would stretch from the Caspian coasts of Turkmenistan and, potentially, Kazakhstan to Azerbaijan, thus passing around Russia.²² Nonetheless, both eastern and western sides of the Caspian could do more to improve the prospects of this pipeline. One way to lessen this problem is for both Kazakhstan and Turkmenistan should cosign their supplies together in uniting the regional resolve for the pipeline, like with Central Asia-China. In addition, the TCP negotiations are an ideal backdrop to create a defining moment for Central-Asian diplomacy towards its neighbor Azerbaijan in a reasonable, mutual partnership without the diplomatic assistance of a great power. These countries, however, are allowing politics, mistrust and, sometimes, irrational behavior to mutilate any possibility of a deal. When states become motivated to make a deal, the opportunity to start meaningful work on TCP will remain available when they are ready.

As previously shown, Turkmenistan has evinced its infamous reputation for abruptly severing contract talks for the most dubious of reasons, and negotiations surrounding the TCP are no exception. Kazakhstan could have had its breakthrough moment in diplomacy and post-Soviet intraregional relations by being effective consultants towards Turkmenistan and Azerbaijan or, at least, be ombudsmen between the two countries. The major dispute creating the rift between the Caspian littoral states is

²² Bartlett, David and Alan Greenhalgh. "Eurasia's Growing Importance in the Global Economy." Kazakhstan Newline. Factiva, 19 July 2010.

the disputed claims of the Serdar/Kypaz gas field deep in the Caspian.²³ Like with Central Asia-China, Kazakhstan has a great opportunity handed to them to achieve a breakthrough that unites both eastern and western poles of the Caspian, especially amid the smaller sources of conflict that prevent larger benefits for each.

On a broader sense Uzbekistan has shown initiative in supporting its neighbor Turkmenistan in their attempts to diversify their energy network. Uzbek president Islam Karimov, during an official visit to Turkmenistan in 2010, he stated that the Central Asia-China pipeline is a great step towards diversifying its energy structure that gives motivation to Central-Asian states as well as other countries that want to overcome “artificially created obstacles in the way of transporting not only of hydrocarbons, but also other resources.”²⁴ Karimov also stated that this pipeline with the very close relationship with Turkmenistan shows the achievement of such projects on the way to the modernization of both states and the increase in living standards on both sides.²⁵ Though the venue in Turkmenistan required Karimov to compliment unctuously his Turkmen host, Karimov’s comments underscore the longing for autonomy and influence in their own energy affairs and to the global energy markets.

Furthermore, the Uzbek president related this breakthrough with a resolution in the UN General Assembly on February 3, 2009 entitled “Reliable and stable transit of energy and its role in ensuring sustainable development and international cooperation.”²⁶ Though the resolution is non-binding and has no actionable clauses, this resolution was

²³ Petersen, Alexandros. "Will Azerbaijani Gas Exports to China Scuttle The Southern Corridor?" The Central Asia-Caucasus Analyst, 09 Dec. 2009. <<http://cacianalyst.org/?q=node/5234>>.

²⁴ “Uzbekistan podderzhivaet politiku Turkmenii po diversifikacii tranzita uglevodorodnyh resursov.” *Regnum.ru*. 20 Oct. 2010. <http://regnum.su/news/1338042.html?forprint>.

²⁵ “Uzbekistan podderzhivaet politiku Turkmenii po diversifikacii tranzita uglevodorodnyh resursov.” *Regnum.ru*. 20 Oct. 2010. <http://regnum.su/news/1338042.html?forprint>.

²⁶ UNGA Resolution A/RES/63/210. Adopted 9 Feb. 2009. <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N08/483/39/PDF/N0848339.pdf?OpenElement>.

written and primarily sponsored by Turkmenistan; therefore, this resolution is a public pronouncement of Turkmenistan's views on energy diversification beyond much doubt. The resolution acknowledges the "initiative of Turkmenistan to convene" a conference in 2009 on "ensuring the reliable and stable transportation of energy to international markets" as well as "recognizes the need for extensive international cooperation in...ensuring the reliable transportation of energy to international markets" of which one way would be pipelines.²⁷ While purely ceremonial, this resolution is a sharp signal of Turkmenistan's desire to eliminate its overreliance on Russia and to become a base for global energy for the international community.

These actions could make some believe that Turkmenistan is trying to dupe the international community into believing that it wants to be a fully participating member of the international energy community when, in actuality, they still want to remain in the Russian orbit. This conjecture would be dubious to believe because Turkmenistan would not have supported Central Asia-China and other pipeline projects that bypass Russia if that were the case. For Turkmenistan and the rest of Central Asia, their ability to promote and secure good relations with each other have mostly been effective for the mutual benefit of all energy situations; however, many more regional energy challenges to solve and initiatives to develop more energy projects still hang over this region and its future.

Third Objective: Maintain an Autonomous and Well-Managed Energy Sectors in Each State

Thirdly, Central-Asian states need to maintain an energy infrastructure and industry that is independent from undue foreign influence and intimidation and that is immune from threat from mismanagement and corruption. As seen in previous examples,

²⁷ UNGA Resolution A/RES/63/210. Adopted 9 Feb. 2009. <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N08/483/39/PDF/N0848339.pdf?OpenElement>.

Central Asian states have often shown the aspiration and determination to wean their way from Russian dominance of their pipeline systems and their energy policies. Russia will not voluntarily allow Central-Asian states to act independently from Russian energy strategies, so the initiative rests on Central Asia itself. Achieving this objective requires more than having the ability to transport oil and gas to various customers; it further necessitates the ability to produce, to recover oil and gas and to refine oil and gas with the least amount of nefarious foreign control that would compromise each state's ability to guide their policies for themselves.

As stated, Central Asian states were aggressive in establishing their sovereignty over energy resources in the new independent territories. Upon gaining independence, Kazakhstan found itself in control of Tengiz, President Nazarbaev showed his ability to be resilient against the Russians in securing the Tengiz field and as much as the Caspian Sea as possible, stating that Kazakhstan will no longer be “an appendage” of Moscow.²⁸ From the early negotiations with Chevron and with the Russians, Nazarbaev has a record of securing an energy industry that is under Kazakh control; however, because the country had relied on the Soviet Union and the West for developing its energy reserves, Nazarbaev had clear limits to the extent of his ability to keep the upstream (recovery and production) Kazakh energy industry free from foreign influence.²⁹

Like with Kazakhstan, Uzbekistan and Turkmenistan also wanted to keep their respective industries free from undue foreign influence as possible, but their upstream sectors require foreign knowledge to operate effectively and to expand further. As stated before, the desired knowledge and skills were best held with Americans and some

²⁸ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 66.

²⁹ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 66-69.

Western firms, but relations between the West and Central Asia had been strained for the first years of independence. Uzbekistan and Turkmenistan, therefore, struggled to maintain their upstream sectors in the 1990s and into the early 2000s with Uzbekistan having performed much better than Turkmenistan, mainly due to American assistance stemming from the “War on Terror” in Afghanistan.

Once China became more involved with the entire Central-Asian region, all countries benefited from additional projects in their territories. Nonetheless, Chinese expertise in pipeline engineering had improved greatly. Even Russia’s independent engineering firms have been integral to developing pipelines in the last decade, including those bypassing Russia. For pipelines originating in Turkmenistan and ending in Iran, which were built with Iranian and Turkmen expertise, these lines are much shorter in distance and transport less gas per time period than other lines.³⁰ Even the Soviet-era Central Asia-Center pipeline has undergone improvements that only foreign, in this case Russian, expertise was essential. In short, the Central Asian region still relies on the global energy community in order to develop its resources.

Within the region, Central-Asian states remain reliant on refineries and delivery mechanisms that are based outside the region in Russia that are necessary in order for Central Asian citizens to have access to petrol, jet fuel, diesel, residential natural gas and other consumer fuels. Holding over from the Soviet period, refineries in north of Kazakhstan in Russia refine much of the oil and gas needed for commercial and governmental enterprises in Kazakhstan and, even, further south.³¹ Recently, however,

³⁰ “Turkmenistan—Oil & Gas Report, Q2 2012.” Business Monitor Online. Business Monitor International, February 2012, p. 28.

³¹ Kandiyoti, Rafael. “What price access to the open seas? The geopolitics of oil and gas transmission from the Trans-Caspian republics.” *Central Asian Survey*. Vol. 27, No. 1, March 2008, p. 79.

the region has shown some improvement in weaning off reliance from Russian and other non-Central-Asian refineries.

In Kazakhstan, the country has recently taken steps to improve its oil and gas refinery capabilities. According to BMI, the three main refineries are the Atyrau crude-oil refinery, the Pavlodar refinery and Shymkent refinery in South Kazakhstan. These three major Kazakh refineries are set to complete massive expansions that will expand daily production from 241,000 b/d to over 300,000 b/d at a cost of over \$3 billion.³² The Atyrau refinery, completed in 1945, is set to increase capacity by over 11,000 b/d to an overall refining capacity of nearly 110,000 b/d. Pavlodar and Shymkent refineries, completed in 1978 and 1985 respectively, each have refining capacities between 140,000 to 150,000 b/d of gasoline and many tens of thousands of b/d more of other fuels. The three main refineries have a total refining capacity of 389,746 b/d.³³

Even with this added emphasis on refineries, the country still relies on foreign help to keep these refineries online. According to BMI, although KMG now has a 99% ownership of Atyrau refinery after acquiring a 50% stake in 2004; however, KMG had to make a deal with Sinopec Engineering to expand the refinery to produce petrol and diesel fuel to a higher, “Euro-4,” standard and to increase capacity.³⁴ At Pavlodar, KMG, which has a 58% stake currently, is thinking of selling a 50% stake to Russia’s TNK-BP; and the Shymkent refinery is controlled by a joint venture between CNPC and Kazakh firms PetroKazakhstan and KMG.³⁵ This information is not shown to argue that the country

³² “Kazakhstan—Oil & Gas Report, Q2 2012,” Business Monitor Online. Business Monitor International, 20 Mar. 2012, p. 28.

³³ “Kazakhstan—Oil & Gas Report, Q2 2012,” Business Monitor Online. Business Monitor International, 20 Mar. 2012, p. 29.

³⁴ “Kazakhstan—Oil & Gas Report, Q2 2012,” Business Monitor Online. Business Monitor International, 20 Mar. 2012, p. 29.

³⁵ “Kazakhstan—Oil & Gas Report, Q2 2012,” Business Monitor Online. Business Monitor International, 20 Mar. 2012, p. 29.

needing foreign assistance is necessary troublesome; the fact that Kazakhstan needs foreign funds and expertise to ensure that its refineries operate and to reduce its reliance on Russian refineries, may leave the country vulnerable to foreign policies and interests of Russia and China that could work against Kazakhstan's interests.

For example, if an economic downturn were to occur in China, the country could lose the ability to continue operations at Kazakh refineries or move to sell stakes in other ventures, such as the Shymkent refinery. Even more potentially troublesome is that the Pavlodar refinery, located around 350 km northeast of Astana, imports crude oil from Western Siberia to supply the refinery.³⁶ Concerning energy logistics, this relationship makes sense for Kazakhstan since importing oil from Western Siberia is more economical than delivering oil from the Caspian; however, the country remains susceptible to a supply reduction or cutoff that would affect supplies for Kazakhstan's residents in the north, including Astana.

In resolving this predicament, Kazakh authorities should reasonably see this as an opportunity for Kazakhstan to build their first post-Soviet refinery in order to reduce their reliance on Russian supplies and to gain better knowledge and expertise necessary to build other refineries and other invaluable infrastructure throughout Central Asia solely with regional expertise. If Kazakhstan were to decide to construct a new oil refinery, the cost and expertise would require a great amount of foreign help, likely still to come from Russian, Chinese and Western sources. Given the desires of foreign energy firms to maintain significant ownership and control of any refinery, Kazakhstan would have to share control with foreign firms; however, given the sensitivity of the situation to regional energy security and the evolution of the energy sectors throughout Central Asia,

³⁶ "Neftegazovuju otrasl' nel'zja otryvat' ot jekonomicheskikh realij - glava MNG RK Sauat Mynbaev." *KazInform*. 27 Aug. 2011. <http://www.inform.kz/rus/article/2401402>.

Kazakhstan and other Central Asian states have no better opportunity than to learn diligently and to reproduce the engineering skills and prowess to increase their energy autonomy.

Instead, Central-Asian states are attempting to reduce their reliance on foreign refinery capability when possible. For Kazakhstan, the country is working to reduce reliance on Russian-based refineries that refine Kazakh crude. One prominent example is the proposal from the Kazakh oil and gas ministry to reduce exports of gas condensate from the Karachaganak field to the Orenburg refinery in Russia with a domestic alternative. Currently, no refinery to replace Orenburg exists; however, the Karachaganak Petroleum Operating consortium (KPO) has announced plans for a new refinery; but approval for this project requires agreement from all KPO participants, which 15% is controlled by Russia's Lukoil.³⁷ If the Russian government were to stay in a geopolitical character by asking Lukoil not to vote for authorizing the new refinery, the proposed refinery would never be built, and Kazakhstan will remain overly reliant on Russia on fuels that Kazakhstan needs but cannot develop themselves. Kazakhstan should, nonetheless, use this refinery dilemma to incentivize its energy sector and its foreign partners to look for opportunities to work together to improve this Kazakh predicament.

Uzbekistan and Turkmenistan are also reliant on foreign imports from foreign oil-refineries to supply domestic demand. While Turkmenistan can use its gas reserves to supply domestic demand, the country's demand for oil products requires imports from Iran and within Central Asia. According to BMI, with a larger population in a more unstable environment, Uzbekistan has three major refineries all owned by Uzbekneftegaz and operated by Uzneftepererabotka. The country possesses the only refinery built after

³⁷ "Kazakhstan may stop selling condensate to Orenburg refinery." Central Asia General Newswire. May 24, 2012.

1991, Bukhara refinery, built by French and Japanese firms until its completion in 1997.³⁸ Renovations to older plants were funded with Japanese and European funds. A gas-to-liquid plant (GTL) in eastern Uzbekistan is under development with help from South-African Sasol and Malaysian Petronas, and gas processing plants, in order to remove high contents of sulfur from Uzbek natural gas, are planned for renovation based on a deal between Uzbekistan and Singapore's Indorama.³⁹ Turkmenistan's relationships with foreign firms has mostly consisted of Chinese firms like CNPC but has been slow in inviting Western and other global firms, which include the most active firms of ENI, DragonOil of Dubai, Russia's Gazprom and Petronas of Malaysia.⁴⁰ From these examples, Turkmenistan and Uzbekistan are less dependent on Russian or Chinese firms and their funding in order to maintain or to develop their oil and gas infrastructure, greatly relying instead on firms located in politically stable and reliable countries mostly in the West.

The chances of Kazakhstan being able to be less reliant on politically unpredictable states like China and Russia are improving through the present day; and Kazakhstan has shown some initiative to attain a more autonomous energy industry. One promising example is KMG announcing that the firm will independently explore offshore oil and gas reserves without the use of foreign expertise.⁴¹ If successful in finding resources, Kazakhstan will certainly achieve a feat that no other Central-Asian state has matched by using solely domestic expertise to find mass energy resources. For the rest of the country's energy sector, removing unnecessary foreign influence and threats from

³⁸ "Uzbekistan—Oil & Gas Report, Q2 2012," Business Monitor International, 13 Feb. 2012, p. 26.

³⁹ "Uzbekistan—Oil & Gas Report, Q2 2012," Business Monitor International, 13 Feb. 2012, p. 27-28.

⁴⁰ "Turkmenistan—Oil & Gas Report, Q2 2012," Business Monitor International, 13 Feb. 2012, p. 46-52.

⁴¹ "Razvedka Dobycha «KazMunajGaz» namerena vyjti i na shel'f kazahstanskoj chasti." *Liter (Kazakhstan)*. 18 May 2011. <http://caspionews.kz/?p=5571>.

endangering their energy industry will take time to achieve; and the country will remain greatly reliant on Russia and Soviet-era infrastructure for its energy needs. Though geography and logistics remain a severe inhibiting factor, Kazakhstan could work with Uzbekistan and Turkmenistan on using their positive relationships with foreign energy counterparts to add more partners and to reduce the possibility of one or two countries leaving Kazakhstan vulnerable to an energy crisis. For Kazakhstan and the other countries that hope to follow it, the best cure for their predicament is to fix it themselves.

Fourth Objective: Maintaining Peace and Stability throughout the Region

Fourthly, Central Asian states need to sustain peace and security throughout the region not only in areas where energy is produced and transported but also in non-energy producing states, like Kyrgyzstan, Tajikistan, as well as South Asian states like Afghanistan and Pakistan. The threats from terrorist networks in Afghanistan, Pakistan and around the world continue to be top concerns for Central-Asia, their energy partners as well as those active in the region in military, humanitarian and other economic schemes unrelated to the energy industry. International organizations like the SCO and CSTO have declared terrorism their most sensitive problem, which has spurred many initiatives that bond Russia, China, the U.S. and Central-Asian states in their collective fight against terrorism and the drug trade that funds terrorist organizations.⁴²

Unlike sea tankers, pipeline infrastructure is extremely difficult to move and to evade potential terrorist attacks without constant surveillance. Rupturing or otherwise sabotaging one part of a large pipeline can destroy the entire flow of oil and gas for long periods of time. For example, the recent mysterious explosion on a Turkmen, Gazprom-owned gas pipeline from Turkmenistan to Russia in 2009 effectively shut down Turkmen

⁴² Davis, Elizabeth Van Wie., and Rouben Azizian. *Islam, Oil, and Geopolitics: Central Asia after Sep. 11*. Lanham, MD: Rowman & Littlefield, 2007, p. 19-20.

exports of gas for many months; and the Turkmen government lost a massive amount of revenue from the explosion.⁴³

Central-Asian based terrorist organizations, like the Islamic Movement of Uzbekistan (IMU), have been threatening the stability of states like Uzbekistan, Kyrgyzstan and Tajikistan; and terrorist groups could be making headway in southern Kazakhstan. Though the threats are not yet concentrated in oil and gas-rich areas of Central-Asia, like Amu Darya or the western Caspian Sea, the endurance of terrorist organizations in Central Asia can strike energy infrastructure and send energy relations in the region into crisis.

Security and stability are of prime importance to all Central-Asian states with states like Uzbekistan and Kyrgyzstan already experiencing wars and rebellions since the fall of the USSR. Turkmenistan and Kazakhstan have been more fortunate, but are not immune to these dangers. As seen in the recent Zhanaozen riots and other western-Kazakh incidents in the past, Kazakhstan has had experience with post-Soviet instability in its most valuable energy sector. With the likelihood of reduced energy demand from the global slowdown, Central-Asian states would be wise to invest funds gradually to improve the lives of their citizens. In the interests of stability, states would be most prudent to invest gradually in infrastructure, housing and social programs, like health care, that reflect continuous improvement, rather than a sudden flash of development followed by long periods of stagnation.

In order to prevent stagnation, countries need to guarantee that investment funds will be available in prosperous and in meager times. Spending all revenues at one time will result in empty funds later since energy-market cycles always have had hills and

⁴³ “Turkmenija obvinila “Gazprom” vo vzryve gazoprovoda.” Lenta.ru, 9 Apr. 2009, <http://lenta.ru/news/2009/04/09/blame/>.

troughs. Moreover, citizens will become less appreciative of state-based projects and developments once they realize the new hospitals cannot operate because the state cannot fund doctors or that new housing complexes are not viable because residents cannot afford to live in them or cannot find the means to maintain the integrity of the buildings.

FINDING THE REGION'S POTENTIAL

If Central Asia can effectively exploit these opportunities to their gain, then Central Asian states can realistically seize the possibilities afforded to them in the twentieth-century in which, like never before, the region can be an independent, discrete and pivotal voice for global energy, political and economic affairs. Specifically, the countries in the region can be a base by which the Far East, Russia, South Asia and Western Eurasia, including the Caucasus, can be linked in energy, trade and economic relations, similar to the “Silk Road” era that linked the Orient with the Turkey and the West. In this century, the countries of the region can work with their economic and energy partners in regional organizations and respective bilateral relations for the betterment of all, which is in the best interest of Central Asia.

This future is possible only with the collective support of all nations in the region without any cheating or rebellious behavior against the collective regional interests. Turkmenistan, with its unique doctrine of “positive neutrality,” has refused to participate with most international organizations officially and has, as previously shown, the most infamous reputation for having the most renegade foreign policy in order to preserve autocratic rule domestically. Kazakhstan and Uzbekistan also have had to embark on problematic foreign-policy trajectories in order to stabilize their energy industries and their grasp on each nation.

For the elites in power, their interest lies in garnering the most foreign support, especially financial, towards each energy sector, as it serves the bulwark of each state's economic and political strength; and the means by which to gain such strength are located around the world, which would be eager to invest if the region introduces the right incentives. From the examples provided, the leadership of each energy-rich state, including modern-day Turkmenistan, has shown their willingness to an extent to be productive members of the international community. Now, their nascent history of global cooperation can transform into a pan-generational institution that creates a region of influence rather than a region of vassals.

Central Asia's geographic location gives it prime advantage to be an interlocutor with the present and future geopolitical poles and geoeconomic centers in this century. As previously stated, the vast expanse that comprises former-Soviet Central Asia gives the region a unique advantage to be not only an energy-production hub but also an energy-transit hub. Throughout the many pipeline projects that have been laid since the Soviet Union, the pipeline that could make the largest geoeconomic and geopolitical impact on the region in the twentieth-century will not be laid in the region if at all.

One of those projects that could catapult the influence and prestige of the region is the Nabucco Pipeline. The Nabucco pipeline is heralded Europe's remedy to its dependence on Russian natural gas, which chains their political and economic autonomy with respect to Russia. The Nabucco pipeline will only reach the eastern tip of Azerbaijan at the Shah Deniz gas field and move westward to a terminus planned in Austria. The connector from Central Asia to a future Nabucco would only be tanker ports to gasification terminals in Azerbaijan.⁴⁴ Ideally, pipelines from fields in Turkmenistan and

⁴⁴ Giuli, Marco. "Nabucco Pipeline and The Turkmenistan Conundrum." *Caucasian Review of International Affairs*, 2.3 (2008), p. 127-129.

Kazakhstan would transmit more stockpiles of gas to markets in the West. As previously stated, the region needs to come together to make a deal with Azerbaijan and the rest of the Nabucco stakeholders to make the entire project, from Amu Darya to Austria a success.

Especially since the feasibility and the construction of the pipeline has been in danger from Russian competition, in the form of South Stream, as well as fellow European competition to take advantage of Nabucco's delays, a resolution between eastern and western Caspian states is more important than ever. For Azerbaijan, it could create a marquee moment for its rising status as a small country with huge influence on the world stage. Many argue that the country has much to gain and to lose from the future of Nabucco, but the same might not be said about Turkmenistan. If Nabucco or the TCP to Azerbaijan is not built, the country will not lose a significant amount of potential revenue as the country still has major projects that deliver gas to Russia and to China with the potential to establish new relationships with South Asia. Therefore, the fate of Turkmenistan in this century will not be tied to Nabucco as much as it would be for Azerbaijan. Nonetheless, the region must realize that achieving diversification towards Europe, no matter how difficult the sacrifices may become for Turkmenistan or Azerbaijan, is almost always preferable than being shut out from them.

For all three countries, each has the ability to use its energy resources to create a region of growth within and influence beyond. Success in these endeavors will be slow, difficult and require some friction within the region and with foreign partners. If, of course, Central Asian states can take advantage of the opportunities through partnerships, projects and multilateral initiatives in order to achieve those objectives that will set the region towards a period of preeminence and prosperity, then the world will be forced to reshape its attitudes towards it as well as accommodate its new influence on the world

stage. Because Central Asia still resides among many global powers, the region still is dependent on and must strategically hedge against their often unscrupulous neighbors.

Chapter 5: Critical Issues Impacting Central Asia's Energy Future

INTRODUCTION

Since Central Asia had achieved independence from the Soviet Union, the region has been through a challenging few decades to reach a position to achieve the conditions and to seize on the opportunities that their independence, their particular geology, their participation with the global economy have afforded to them. As the region continues to evolve politically and economically, the future position of the region in the geopolitical and geoeconomic spheres is, of course, unknown; however, although the region has significant control of its own destiny, understanding the most feasible path of this region going forward is dependent on the future of the regions surrounding it.

This chapter will focus on how certain trends in surrounding areas will affect the future of Central Asia's global energy position. Russia, Iran, and South Asia which surround Central Asia, will have significant influence on the future of the region; but the ways in which each will exude their clout on the region is not certain. Their current intentions, however, are much clearer. For Russia, the former dominant force in the region wants to preserve its influence through establishing political organizations in hopes of preserving the region's closeness with the Russia's political economy and energy strategy. India and Pakistan have wanted new sources of energy for their growing economies, but their geographical position and political instability have made further cooperation difficult; yet it is improving. The Islamic Republic of Iran, being an ally of Russia for many years, has haphazardly been an asset to Russia by restricting the ability of the region to spread energy contacts southward around Russia.

This chapter will explain the developments of relations between Russia, South Asia and Iran with Central Asia, respectively. Then, the chapter will describe some future scenarios for each area that will have profound effects on Central Asia. These scenarios

are not predicting the future but are presenting possible courses that each region could take in its own respect that would change the course of Central-Asian history. In addition, this section will explain the prospects of renewable energy generation in Central Asia were technology and the political-economic circumstances favorable to its development. Though predicting Central Asia's future is beyond the scope of this chapter, presenting some plausible scenarios is intended to promote thought and future ideas in hope of achieving better understanding of the world's last frontiers.

RUSSIA'S FUTURE IN THE REGION

Since the fall of the Soviet Union, the Russian Federation has become extremely concerned of the increasing influence of foreign powers, like China and the United States, in the region at the expense of its own authority over its former Soviet satellites. Russia's main concern is that a resurgent China has infused billions of dollars in investment in the energy sector and in the broader economy. More importantly, China's activity in Central Asia has endangered Russia's broader relationship with China in which China purchases energy and arms from Russia while China helps Russian efforts to counterbalance American global power.¹

Even with the U.S. drawdown in Afghanistan, Russia remains very concerned of America's energy interests in the region that have spanned since the fall of the Soviet Union. Notably, the perennial presence of Chevron at Tengiz oil field was a relationship that the former Soviet Union authorized after years of failed oil-field development by Soviet institutions.² Since then, Russia has found itself having to compete for

¹ Shishkin, Philip. "The Crisis of Governance in Central Asia." Asia Society, 15 Mar. 2012. http://asiasociety.org/files/pdf/120215_central_asia_crisis_governance.pdf, p. 26.

² Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin, 2011, p. 66.

participation in many Central Asian projects from the U.S., Europe and emerging energy player China.

Although Russia is most likely unable to purge completely non-Russian influences from the region, Russia understands that Central Asia is the last region outside Russia that remains significantly loyal to Moscow in the twenty-first century. With exception of its pipeline networks and energy reserves, Russia has had much of its international clout erased; and its global prestige eviscerated. Russia has lost much of its Middle East, African and Latin American influence, which has mainly survived from arms and military trade though at much lower levels from the Cold War. Domestically, Russia's revenues from the export of Russian oil and gas have not been able to protect the country from having budget deficits.³ According to former Russian Finance Minister Alexey Kudrin, oil needs to be priced at \$117 a barrel in order for Russia's federal budget to be "balanced."⁴ With its reduced international position as well as its perilous economic situation at home, Russia needs to maintain control of Central-Asian energy assets not only for a geopolitical interest but also to amass much needed revenue through transport duties, arbitrage and royalties paid to Russia from Central-Asian states. Since the fall of the Soviet Union to the present day, Russia's answer to the challenge of maintaining control of this region has been to tie the region into political organizations to compel them to act in Russia's interests in energy policy.

³ "Kudrin predlozhil antikrizisnye mery." *Diver-sant.ru*, 18 Oct. 2011, <http://diver-sant.ru/economics/3374-kudrin-predlozhil-antikrizisnye-mery.html>.

⁴ "Kudrin predlozhil antikrizisnye mery." *Diver-sant.ru*, 18 Oct. 2011, <http://diver-sant.ru/economics/3374-kudrin-predlozhil-antikrizisnye-mery.html>.

Russia's Use of the CIS and Collective Security Treaty Organization Multilateral Organizations

While Russia had to pursue assertive bilateral diplomacy with Kazakhstan, Turkmenistan and Uzbekistan, Russia has tried to reaffirm its control over Central Asia through new multilateral organizations. Post-Soviet Russia's first attempt at tying Moscow with the region was in its support for the Commonwealth of Independent States (CIS) in December 1991, which had an initial membership spread to all regions of the former Soviet Union except the Baltic states. Russia managed to get all Central-Asian states to ratify the treaty to form the new alliance, but Turkmenistan, in what would be a trend of strict neutrality, refused to ratify the treaty.

This organization, however, has lost much of its relevance among its initial members as the former-Soviet satellites failed to find a mandate for the CIS and, partly as a result, many members reduced participation or withdrew outright from the organization. In the mid-2000s, Georgia and Ukraine each went through "colored revolutions" that shifted their foreign interests away from Russia and towards the West. Turkmenistan, having the largest gas reserves, has remained uninterested in participating actively in CIS, reducing the organizations ability to guide regional energy policy. Also, with the entrance of Chinese and American influence, the rest of Central Asia has become less enthusiastic in participating in increasing the influence of CIS that could reduce the region's ability to make energy deals and to establish economic and military relationships with China, the U.S. and other future partners. Today, the CIS has become a weak organization that operates mostly ceremonially and a glorified discussion forum; but it has neither impacted Russian or Central-Asian energy policy nor increased Russian influence on energy relations with the region. Where the CIS has failed to become an influential

organization, the Russians hoped that absorbing non-Soviet actors into future Eurasian organizations would achieve post-Soviet Central Asian influence for Russia.

Shortly after the establishment of CIS, the Collective Security Treaty Organization (CSTO) was established on October 7, 1992 establishing a regional military alliance binding former Soviet republics in the Caucasus, Central Asia and Belarus similar to NATO or the former Warsaw Pact.⁵ The CSTO was created from the structure of the CIS, and CIS states signed the “CIS Collective Security Treaty” (CST) from May 1992 through December 31, 1993.⁶ The treaty went into force on April 20, 1994, and the treaty agreement between the states was transformed into a fully independent military alliance in 2002, becoming the CSTO.⁷ The transition from the Collective Security Treaty to the CSTO resulted in the withdrawal of three former members. Azerbaijan, Georgia and Uzbekistan refused to participate in extending the terms of the treaty, which paved the way for the establishment of the CSTO.⁸ Along with Uzbekistan’s withdrawal, Turkmenistan also has refused to be a part of the CSTO. The remaining four Central-Asian states remain full members.

After the “Andijon Massacre” of 2005, Uzbekistan joined the CSTO shortly after expelling the United States from its territory and started its détente with Russia, in military relations as well as energy relations. With the winding down of American and NATO forces in Afghanistan, Russia had appeared to score a major victory over the United States in Russia’s sphere of interest; moreover, at the CSTO meeting in 2011 in Moscow, Russia won a motion that would prevent the creation of a new foreign military base in a CSTO state without unanimous approval of all CSTO members. This means that

⁵ “Struktura ODKB.” Collective Security Treaty Organization, <http://www.odkb-csto.org/structure/>.

⁶ “Struktura ODKB.” Collective Security Treaty Organization, <http://www.odkb-csto.org/structure/>.

⁷ “Struktura ODKB.” Collective Security Treaty Organization, <http://www.odkb-csto.org/structure/>.

⁸ “Struktura ODKB.” Collective Security Treaty Organization, <http://www.odkb-csto.org/structure/>.

Russia has a veto on the development of any new American, Chinese or other foreign military base in the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.⁹

Russia's ability to bring together various Central Asian states in military matters may not appear to affect energy relations, but Russia's maneuvers in the military sphere have the potential to produce massive benefits for Russia's energy strategy in the region. Preventing non-CSTO powers like the U.S. or China from establishing military bases assures Russia that it will have an upper hand if a Central Asian state would want to antagonize Russia by threatening to reduce Russian influence or a member state's reliance on Russia. They can do this in many ways such as by demanding Russia to renegotiate natural-gas contracts in order to make them more favorable to Central-Asian states, by inviting non-Russian engineering and energy firms to operate in the country, by establishing closer bilateral relations with neighboring states and by developing new pipeline routes that bypass or reduce the Russian influence within the state. In the event of an energy dispute between Russia and a Central-Asian state, attracting and installing non-Russian foreign military cooperation in Central Asia would reduce the likelihood that Russia would retaliate on a Central-Asian state for undermining Russian energy interests.

More aggressive engagement, from embargoes to military engagement, with a Central Asian state with a foreign military presence would jeopardize Russian interests substantially as it would not only be attacking the Central-Asian state but also the foreign military power inside it. Russia cannot afford risking a conflict with countries like China or the United States that would have military presence in the region. Russia and the rest

⁹ Gavriluk, Aleksandr. "Tol'ko po obwemu soglasiju." *Vsglyad*, 20 Dec 2011. <http://www.vz.ru/politics/2011/12/20/548441.html>.

of the CSTO could pursue legal procedures, such as appealing to international arbitration, to resolve the problem; but without means to carry out punishment against “disloyal” states, Russia could not effectively stop a Central Asian state from undermining Russian interests once it has relations with a foreign military power. This situation makes Russia’s CSTO veto against foreign militaries in the region essential to maintaining its influence there.

This set of circumstances has contributed to a couple of states to defy Russia either by postponing agreements to allow Russians to use Central Asian military bases to pulling out of CSTO altogether. Although not a major energy producer, CSTO member Tajikistan has become so disappointed with Russia’s veto in the CSTO that it has begun to negotiate aggressively in renewing Russia’s basing rights throughout the country despite being extremely vulnerable to unrest in Afghanistan, especially with U.S. withdrawal, and to energy imports from Kazakhstan and Russia.¹⁰ One explanation would be that Tajikistan has been indirectly negotiating with the U.S. for allowing access to Tajik bases despite violating CSTO guidelines.¹¹

In addition, Tajikistan has also been in talks with China about giving China to its territory for building railway networks and pipeline networks from Xinjiang, Western China to oil fields in northwest Afghanistan. These projects could obligate China to preserve peace and security not only with its potential energy-upstream interests in Afghanistan but also in Tajikistan were it to become a transit hub for Chinese interests. This future scenario would require Tajikistan to violate Russian and CSTO agreements not to have foreign military presence either on bases or in other capacities. Furthermore,

¹⁰ “Rossijskie bazy stavjat na zashhitu jekonomiki.” *Kommersant*, 12 July 2012, <http://www.kommersant.ru/doc/1978545>.

¹¹ Bhadrakumar, M. K. “Russia loses hold on Tajikistan pivot.” *Asia Times*, 11 July 2012, http://www.atimes.com/atimes/Central_Asia/NG11Ag01.html.

it is unlikely that Russia would use its military presence in Tajikistan to compel the host government to abandon projects with China and Afghanistan, especially since active engagement against Tajikistan would antagonize China and much of the international community, which would decimate Russia's agenda in Central Asia as well as other energy engagements around the world because the regional and global backlash against Russia could compel the region to build relationships with the U.S., China and other states at a much faster pace than if Russia were to yield to foreign influence.

Uzbekistan has become more emphatic of its desire not to be under this Russian veto when in late June 2012 the country declared that it was withdrawing from the CSTO only after joining the organization in 2006. Under the same reasons that prompted Uzbekistan's withdrawal from the CIS's Collective Security Treaty, Uzbekistan left CSTO because it wanted the freedom to determine its security and military relationships with foreign powers without Russian or regional interference. In fact, President Karimov had refused to participate in annual summits or in CSTO military exercises in recent years.¹² Like Tajikistan and Kyrgyzstan, Uzbekistan is most likely to negotiate with the U.S. to arrange a basing agreement that would invite American forces into the country. Without CSTO entanglements, Uzbekistan would not have any legal barriers between Russia or between Central-Asian states and Uzbekistan. Furthermore, like Tajikistan and other Central Asian states, Karimov is likely looking to China for future military collaboration. Russia, however, will only watch as Uzbekistan pulls away from the Russian sphere of influence.

As these two examples show, Russia has been unable to develop the CIS or the CSTO to neutralize Central Asia's desire or ability to wean itself from Russian

¹² Petersen, Alexandros. "After CSTO Withdrawal Uzbekistan Also Looks East." *China in Central Asia*, 2 July 2012, <http://chinaincentralasia.com/2012/07/02/after-csto-withdrawal-uzbekistan-also-looks-east/?lang=en>.

dominance. The main reason for these failures is that Russia was unable to execute punitive measures over most of these periphery states. With the arrival of powers like China and the U.S. having energy, economic and, sometimes, military, presences in the region with the prospect of increased cooperation, Russia cannot avoid the potential of upsetting foreign powers when their operations in the region are affected by Russian maneuvers intended to assail a Central-Asian government. Aside from its inability to use these regional organizations to protect its authority over Central Asia, Russia has tried to work with its neighbor, China, to accommodate a rising power that is spreading into Russia's orbit while maintaining a sizable influence in the region.

Russia and its Use of the Shanghai Cooperation Organization

The idea for the Shanghai Cooperation Organization (SCO) originated from China; but the Russians believed that the SCO would provide Russia with a means to bring Central Asia together, like CSTO, in one grand strategy and to control China's rise in the region while preserving Russia's influence there in the name of "mutual cooperation" in the region. Despite having most funding and operations originate from China, Russia was able to achieve some political victories, such as the declaration in 2005 in which the SCO demanded the shutting down of all U.S. military bases in Central Asia, including Manas air base in Kyrgyzstan, led by both Russia and China.¹³ Russia and China have also joined forces on developing mechanisms on what China calls the "three evils": terrorism, extremism and separatism, which threaten the interests of Russia and China.¹⁴ Overtime, however, the SCO has fallen short of being a vehicle to revive

¹³ Shishkin, Philip. "The Crisis of Governance in Central Asia." Asia Society, Jan. 2012. 15 Mar. 2012. http://asiasociety.org/files/pdf/120215_central_asia_crisis_governance.pdf, p. 29.

¹⁴ Davis, Elizabeth Van Wie., and Rouben Azizian. *Islam, Oil, and Geopolitics: Central Asia after Sep. 11*. Lanham, MD: Rowman & Littlefield, 2007, p. 21.

Russia's regional dominance by checking China's rise or to bolster regional support of Russian energy and general foreign policy.

Post-Soviet Russia's record of using of the SCO to bring Central Asia into Moscow's influence, especially in energy affairs, has been unsuccessful. With the inclusion of China and without Russia's ability to supersede the authority of China or the collection of its Central-Asian members, Russia has had great difficulties in pursuing energy policy in the SCO that is disproportionately advantageous to Russia. For most of the last decade, Russia's energy strategy is executed mostly through Russia's oil and gas firms, like Gazprom and Rosneft, and bilateral relations between Russia and each Central Asian state. In effect, from the lack of strategic energy opportunities within SCO, Russia had to trust in its national energy firms, its bilateral relations in the energy ministry and other forms of international outreach that failed to unite the region into one broader Russian energy strategies. Instead, it turned into a series of conflicting bilateral schemes.

Because Russia could not merge regional energy policy, the backbone to its economy and its political legitimacy, Russia would not have been able to have any meaningful progress in military, broader economic or political relations that would serve as strengthening Russia's regional position at the expense of China, the U.S. or other foreign states. As a result, Putin and Russia have embarked on new strategy to merge the region together that would officially shut out China and only allow the former Central-Asian Soviet satellites.

The Customs Union and Eurasian Union

Russia's two new organizations, the Customs Union and the Eurasian Union, are the country's latest attempts and the most overt signs of Russia's intentions to reestablish its unquestioned influence in Central Asia. The Customs Union consists of only Belarus,

Russia and Kazakhstan with the potential addition of Ukraine in the future.¹⁵ The Eurasian Union is a proposed political union of Russia, Belarus and all Central-Asian states except Uzbekistan and Turkmenistan.¹⁶ The Customs Union is a more integrated economic union than the Eurasian Union because existing transactional tariffs and taxes are reduced more than what would be possible in the other bloc.¹⁷ The Eurasian Union, meanwhile, plans to become a forum to be a broader economic and political organization that seeks cooperation and the establishment of a free-trade zone.¹⁸ Nonetheless, both organizations are designed to tie the smaller former Soviet satellites to Russia using incentives more than intimidation.

This time, these organizations are designed to provide incentives for Central Asian states to have trade and commerce with Russia with reduced or removed customs duties and other reforms that have the intention to reinvigorate Russia's economic and hegemonic advantage over its Central-Asian neighbors. These tactics include establishing region-wide reduced or removed customs duties, added royalties and payments for oil and gas exports through the Russian energy-trade infrastructure and more integrated energy and general economic trade with Russia's trade network.

Unfortunately, for Russia, unlike the economic system during the Soviet Union, the Customs and Eurasian Unions have few effective mechanisms to discourage or to punish economic or trading activity by its members against the interests of the Russian-led economic unions. In fact, Russian aggression through any union would likely be

¹⁵ "Customs union, common economic space to underlie Eurasian union – Putin." *RIANovosti*, 4 Oct. 2011, <http://en.rian.ru/world/20111004/167361651.html>.

¹⁶ "Putin says deal on Eurasian Economic Union must be ready by 2013." *RIANovosti*, 19 May 2011, <http://en.rian.ru/russia/20110519/164123753.html>.

¹⁷ Kramer, Andrew. "Russia and 2 Neighbors Form Economic Union." *The New York Times*, 5 July 2010, <http://www.nytimes.com/2010/07/06/business/global/06customs.html>.

¹⁸ Cutler, Robert M. "Putin Declares 'Eurasian Union' Goal of Russian Foreign Policy." *EconoMonitor*, 25 Oct. 2011.

countered with collective resistance from the Central Asian states with China providing, at least, concealed support. In the short term, as much of Central Asia remains reliant on the Russian energy system to supply energy to the region as well as to transport some oil and gas supply abroad, Russian corrective actions through the Eurasian or Customs Unions would have some impact on Russia's neighbors, but this would only incentivize Central Asian states to diversify away from Russia and engage more with China and with Central-Asian neighbors. Also, heightened Russian actions against the region under authority of the unions would most likely provide opportunities for foreign states, like the U.S. or India, to improve economic, political and military relations at the expense of Russia. In effect, Russian sanctions or other aggression through any post-Soviet Russian union with the region would further create the determination in the region to reduce their exposure to Russian punishment by engaging independently with the rest of the world.

Moreover, these Unions may create a situation in which Russia may become more reliant on the "periphery" states in order for these compacts to remain relevant. For example, prospective member Ukraine and established member Kazakhstan are currently in the both unions and energy relations between them are dependent on Russian pipelines; but they can use Russia's infrastructure to its advantage over Russia; but it would require continued diversification of their respective energy infrastructures. This would be easier achieved in Kazakhstan than in Ukraine, but this goal is possible in the next few decades. For example, if Ukraine were to manage to develop domestic supplies of gas from shale and conventional resources and to import extra supplies from pipelines around Russia, then the country and the European network could be less vulnerable to a supply shock from a shut off. For Kazakhstan, if the country can continue to construct pipelines outside Russia, it would develop fields without the need of Russian help, to reduce its need for Russian imports to east Kazakhstan and to develop domestic refining

and supply infrastructure inside the country, then its clout against Russia is increased considerably.

The early phases of both the Customs Union and the Eurasian Union render an early verdict on their success untenable, but the likelihood of their success through Russian maneuvers and strategy is remote. For these new organizations to work to Russia's advantage, a myriad of economic and political factors would have to shift towards Russia's favor and against the other states' interests in order to compel these states to cooperate with Russia. Like with the CIS and the CSTO, members of the Eurasian and Customs Unions are not obligated to have exclusive relations with Russia nor will Russia have the ability to reduce forcibly economic relations between Central Asia and the international community. Furthermore, they are unlikely to submit voluntarily to any union with Russia that could potentially place them in a submissive position to Russia and limit their opportunities within the global economy. The assertions that the Customs Union or the Eurasian Union significantly caging Central Asian region back into Russia's orbit are not consistent with the goals and opportunities by which to integrate the region with the global economy and to place it in the best position. Russia, therefore, will most likely have great difficulty restoring its past dominance in this region through these political-economic schemes.

Russia's Ongoing Passion to Preserve Central-Asian Influence

One suspected motivation to develop organizations like the Custom's Union or the Eurasian Union is Russia's infatuation with the growing "infiltration" of Chinese and American influence in the region. Such grave concern over its "backyard" has made many in the Russian government that it will lose completely its control of its Central-Asian "sphere of privileged interests" and have its global position irreparably damaged.

To spur these fears, Russian experts have alleged that, from their controlling stakes of energy field in Kazakhstan alone, Americans already “control” around 77.4% of all Kazakh oil and gas production.¹⁹ For the Russians, the relationship between Kazakhstan and American IOCs is something that Russia cannot match due to technological and engineering deficiencies that also appear in the rest of Central Asia. Without means to compete with the global energy community in this manner, Russia has resorted to other means to undermine Kazakh and regional energy policy but mainly through indirect means, like clever diplomacy and strategy in the 1990s and creating Customs Unions with Kazakhstan.

The rivalry between the U.S. and Russia in the region spreads well beyond the energy realm, passing through the political, broader economic and military sectors; and Russia has focused its intentions to these three segments. For example, Russians are deeply concerned that Afghanistan could become a permanent American military installation, despite the American/NATO drawdown of forces and the Russian-American collaboration in the Northern Defense Network (NDN) that provides the United States a logistical mechanism to deliver supplies to Afghanistan through Russian territory. In addition, Russia continues to worry that Kyrgyzstan will continue to allow the Americans to use the Manas Air Force Base north of Bishkek and that Uzbekistan will continue its cooperation with the Americans on military matters, especially since the country has pulled out of CSTO and, effectively, freed itself from regulations that restricted American presence in CSTO states. Russia’s leaders believes that America’s public commitment to combat terrorism in Central Asia and Afghanistan are overstated and that the U.S. wants

¹⁹ “SShA budut kontrolirovat' bolee 75% dobychi nefi v Kazahstane.” *Regnum.ru*. 14 Apr. 2012. <http://www.regnum.ru/news/1520977.html>.

more destabilization in order to help compel southern Central Asian states to allow added American presence in the region.

THE IMPACT OF INDIA AND PAKISTAN IN CENTRAL ASIA

Based on an Indian-Kazakh joint report, as one of the fastest growing economies in the world, India and its population of 1.2 billion will need massive amounts of new energy supply from many different sources. Thought in this report to be the sixth largest global energy consumer, the country will need to increase its annual energy consumption by 5% to sustain GDP growth at 7 to 8 percent annually.²⁰ To resolve their energy challenge, Indian officials have looked towards Central Asia to supply not only in supplying future Indian energy demand but also to exploit the energy relationship to build new partnerships with Central Asia in other sectors like military and manufacturing.²¹

India has been a strong proponent of a north to south “Energy Highway” from Russia through Kazakhstan, Turkmenistan and Uzbekistan into Kashmir, bypassing Pakistan entirely by straddling the border between India and China, ultimately entering India proper.²² Indians fear that allowing any pipeline to pass through Pakistan would leave open sabotage or acts of terrorism on it in what is still a volatile region in the world.

Beyond the Central-Asian dimension of Indian energy cooperation, India has been considering an energy future with the region combined with what is labeled as “Pan-Asian Solidarity” in which Central Asian energy infrastructure would, ideally, combine with India, Iran, South Asia, Russia from Siberia to the east, the Far East and Southeast Asia. India would greatly benefit from this continental cooperation as it would secure

²⁰ Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p. 33.

²¹ Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p. 33.

²² Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p. 33.

necessary energy supply for this century and beyond.²³ In addition, Central Asian states would greatly benefit from this energy plan as they would be center of the logistical labyrinth connecting suppliers with consumers, mainly residing in India and China.

Also, India has expressed its support for the “North-South Transport Corridor” that is similarly ambitious in its goals and its scope of involvement. This project, which is in its planning stages since at least the mid-2000s, includes the transmission of energy as well as other goods not only between Central Asia and India but also among regions spanning from Russia through Middle-Eastern states, South Asia and Southeast Asia.²⁴ By constructing new pipelines and railroads, this elaborate project would also secure India’s energy future that would integrate both Central Asia and South Asia. Given the political and economic realities, however, these and other future transport plans unlikely to manifest completely in the foreseeable future.

Nonetheless, India has been cooperating with Central-Asian states, especially Kazakhstan, in other sectors outside energy to promote cooperation with both regions that would transfer into the energy realm once the conditions are ripe and appropriate for constructive cooperation. For example, other industries in which trade between Kazakhstan and India include metallurgy, cotton, fertilizers, chemicals, medicine and teas; however, one major challenge remains transport costs, due to the substantial inconvenience of hauling freight from India northward, making air shipments one of the major obstacles to trade flourishing between the two regions.²⁵ These major logistical

²³ Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p. 21.

²⁴ Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p.22.

²⁵ Santhanam, K., and B. K. Sultanov. *India-Kazakhstan Relations: Enhancing the Partnership*. New Delhi: Anamaya, 2006, p. 23.

challenges render projects like the North-South corridor exceedingly important in order for Central Asia and South Asia to develop effective energy cooperation.

In diplomatic relations, India has been very supportive of Indian efforts to resolve the Kashmir crisis and to improve relations with Pakistan. Needing peace south of its region, Kazakhstan is interested in a peaceful resolution of the Kashmir conflict, as well as in Afghanistan. This is one reason why Kazakhstan and other Central Asian states have been welcoming India and Pakistan in the SCO as well as greater collaboration in the region's efforts to combat terrorism, separatism and illegal trafficking, issues that South Asia is struggling against in its own backyard. Central Asian states understand that out of the legacy and emerging world powers that makeup Asia, India is cautious to engage the region without worrying about a "great-power" struggle that, according to many observers, has characterized the Russia's and China's strategies in the region, which is more strategically mature than India's engagement.

India's interest in the region has reinvigorated some projects that had remained dormant for many years. The most notable revived project is the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Natural-Gas Pipeline from Amu Darya through Afghanistan, Pakistan and India in which all three latter states will be able to withdraw supplies to their respective markets. Senior Pakistanis are on record stating that they want the pipeline to become a "symbol of regional peace," and an initial agreement between all sovereign parties had been achieved in December 2010.²⁶ Security issues, especially regarding the withdrawal of American troops from Afghanistan and the uncertain future of the region in relation to America's policy shifts, has halted the construction of the pipeline from commencing, but this snag has not stopped Central Asian states from

²⁶ "Pakistan article urges making four-nation gas pipeline symbol of regional peace." *BBC Worldwide Monitoring*, 24 Dec 2010.

signing deals of their own with South Asia on their own accord, knowing the logistical and security challenges that await them.

Turkmenistan in 2010 initiated a dialogue with Pakistan and Afghanistan to increase energy cooperation. In reiterating its policy of neutrality in foreign affairs, Turkmenistan stated that “neutrality is not just a legal status” but also “a full-scale involvement in international processes through...assisting in working out effective models of economic cooperation.”²⁷ As much as Turkmenistan is projecting “neutrality,” the country is pursuing a more assertive, self-regulating approach to engaging its neighbors, especially in the diplomatically less powerful nations of Afghanistan and Pakistan as opposed to states like China. Kazakhstan and Uzbekistan have also shown the urge to sign deals with India on energy affairs without the assistance of, authorization from or intimidation by multilateral organizations or more powerful neighbors like China or Russia.²⁸ Continued cooperation with India, despite the challenges and walls that prevent complete cooperation, can potentially create the foundations for more robust relations in the event that energy relations between Central and South Asia can become a significant portion of their respective energy policies.

THE IRAN FACTOR

The relationship between Central Asia and the Islamic Republic of Iran is a peculiar one because Central Asia, since gaining its independence, has looked for opportunities for trade and energy cooperation with the country while promoting good relations with it in order to take advantage of its auspicious geographical position as a bridge between the Middle East and South Asia as well as being a littoral state to the

²⁷ Taqui, Jassim. “Turkmenistan urges trade ties with Pakistan to expedite gas pipeline project.” *BBC Worldwide Monitoring*, 7 Oct. 2010.

²⁸ “India, Kazakhstan state-owned oil companies sign deal during PM’s visit.” *BBC Worldwide Monitoring*, 16 April 2011.

Caspian Sea. Conversely, Iran serves as a competitor to Central Asian interests as it remains one of Russia's strongest allies, including its attempts to prevent the development of hydrocarbons in the Caspian, and, despite crippling sanctions against it, one of the largest exporters of hydrocarbons to India and China, which bypass sanctions intended to prevent such energy trade, undermining Central-Asian attempts to increase its energy exports.

Though Central-Asian states are willing to overlook Iran's behavior that would undermine Central-Asia's energy policy abroad, the region does not wish to catch the ire of the U.S. and Europe, which have many energy and engineering IOCs located throughout the region and can compel them to decrease or to halt completely all activity in the area, which would send the energy infrastructure into a crisis and would weaken its diplomatic relations with the Western world. Given Iran's defiance in the wake of international sanctions on energy exports, financial transactions and political restrictions, Central Asia is not in a position to defy much of the global community in engaging with the country, especially since helping the country would ironically assist in promoting Iranian policies and proposals that are undermining Central Asian energy relations.

Iran has been working with Russia since the fall of the Soviet Union to preserve treaty agreements and other forms of international law that designates the Caspian Sea as a legally defined "lake" rather than a "sea."²⁹ The other three littoral states Azerbaijan, Kazakhstan and Turkmenistan would rather have the Caspian defined as a sea so they can build pipelines through the Caspian without Russian authorization. The difference in legal interpretation has major ramifications to the future of developing deepwater

²⁹ Kupikov, Sergei. "Vojna na Kaspii mozhet stat' real'nost'ju." *Nezavisimaya Gazeta*, 22 Nov. 2011, http://www.ng.ru/economics/2011-11-22/1_kaspiy.html.

offshore resources in the Caspian Sea by those states that want the Caspian legally defined as a “sea.”

According to Dash, if the Caspian were defined as a “sea,” then the Caspian would be divided into five jurisdictions allocated according to many factors including amount of Caspian coastline a state controls as well as the distance from one state to another, so as to provide the fairest division of the Caspian.³⁰ In this setup, states like Azerbaijan, Turkmenistan and Kazakhstan would be free to explore and to develop hydrocarbon resources, including transportation infrastructure like pipelines, within its own jurisdiction under its own authority without needing the authorization or consolation of other littoral states. Essentially, states like Iran and Russia would be helpless in stopping energy development of hydrocarbons in Russian territory lost after the fall of the Soviet Union. If the Caspian were defined as a “lake,” then the entire Caspian would not be allocated according to territory and location of state jurisdiction in relation to the Caspian. The entire body of water would have “collective ownership” of water and hydrocarbon rights, which would allow states like Russia and Iran most probably to have a de facto veto over the development of hydrocarbons under the auspices of former-Soviet states.³¹ In this situation, Russia would still retain much control of the development of the Caspian that it had during the Soviet Union.

This sharp disagreement over defining the Caspian will unlikely have a breakthrough in the foreseeable future if the current geopolitical situation continues around the Caspian region. No matter if and how Central Asian states will engage with Iran, the region will be unable to convince the current Iranian regime to change its stance

³⁰ Dash, P. L. *Caspian Pipeline Politics, Energy Reserves, and Regional Implications*. New Delhi: Pentagon in Association with Observer Research Foundation, 2008, p. 40-45.

³¹ Dash, P. L. *Caspian Pipeline Politics, Energy Reserves, and Regional Implications*. New Delhi: Pentagon in Association with Observer Research Foundation, 2008, p. 40-45.

on the Caspian Sea in favor of the region because Iran still regards Russia as a staunch ally with its significant arms shipments, meaningful collaboration with Iranian efforts in nuclear technology and diplomatic support of the regime in the international community, defying Western and American efforts to undermine the regime. If Iran were to betray Russia on the Caspian issue, the country places in jeopardy all of these other relationships and advantages that it would not be able to get from any other state or a collection thereof without changing the fundamental nature of the Islamic Republic. Without radical regime or otherwise ideological change, the Islamic Republic will remain the key block to Central Asian prospects to having a more unified Caspian policy, better trade relations between the east and west Caspian and easier access to Western markets.

POSSIBLE SCENARIOS

Central Asia's future and its relations with the great powers of China, Russia, the U.S. and India along with other countries like Iran is impossible to predict effectively; therefore this section will provide various scenarios that will shape the key outer actors in the region and how Central Asian states can adjust to possible future developments in the global geopolitical and geoeconomic landscape. This is not an exhaustive list of scenarios.

Potential for Russia

For Russia, their ability to maintain influence in the region is heavily reliant on whether the Central-Asian periphery, especially in China and India, will be too economically or politically unstable for Central-Asian investment and collaboration with the outer world. If this scenario were to occur, then Russia would need to ensure that their domestic political and economic situations remain stable enough to encourage continued energy relations with Central Asian states, especially on the advent of the Customs and

Eurasian Unions. For example, with economic stagnation in India and in China, it would be cheaper for Central Asian states to sell their energy assets through the Russian energy-pipeline system since Russia would purchase them at much cheaper prices and resell them to customers in Europe or domestically at higher prices while preserving their own energy reserves, which saves on production costs and allows for Russian oil and gas to be saved for times when energy prices are much higher in order to make upstream-operations costs more economical for Russia.

During this time of coerced cooperation with Russia, Central Asian states in the Eurasian Union would be pressured to ratifying long-term contracts with Russia not only in the energy space but also in other sectors, like the military or manufacturing, or with commitments, such as guaranteeing basing rights for Russia and having Central-Asian states have legally defined preferential treatment for Russia. Central Asian states, without another economic partner to turn to, would be pressured to accepting long-term contracts with Russia to solve a short-term threat of decreased energy revenues. For Central Asia, since states would remain heavily reliant on energy revenues for stability and political credibility, they would be compelled to agree to pacts that they would not otherwise sign. Such contracts could include reducing the payments Russia would pay to Central Asian states for buying their gas or transporting it through their pipeline networks. Russia also can increase its oil and gas purchases from Central Asia at a cheaper price not only to take advantage of the desperate times but also reduce the amount of remaining reserves Central-Asian states would have to export to states like China or India. In case China and India experience stagnation or, even, deep recession, Russia will definitely benefit from this development and draw Central-Asian states deeper into its orbit.

When other economies recover and demand more energy, China and India would very likely encourage Central Asian states to renege on their new obligations with Russia

and the Eurasian Union. If Central Asia were to break on their obligations without Russian authorization, Russia would certainly seek reprisal; but would be limited on the particular means to carry out punishment and would need to pressure the entire Eurasian Union to follow through on punishing transgressions by a member state. Russia, for its part, could not resort to military means but only to political pressure and economic sanctions, including in the energy sector.

In a hypothetical case, if Turkmenistan decided to build a pipeline and export of natural gas to India that would necessarily reduce exports to Russia under Eurasian-Union contracts and treaties, then the whole organization would be obliged to pressure Turkmenistan not to follow through on their agreement with India or, even, punish Turkmenistan for its contraventions. With its geographical position and its economic dominance among Central-Asian states, Kazakhstan would be the most pivotal Central-Asian state for determining the effectiveness of such Eurasian Union sanctions.

If Kazakhstan were to follow Russia's and the Union's orders, then Turkmenistan would be cut off effectively not only from export routes to Russia but also possibly from pipeline routes that send oil and gas to China, like the Central Asia-China pipeline. Though extending Turkmenistan's punishments to Chinese pipelines would be dangerous since Kazakhstan would worry about unrest in Xinjiang if they lose energy imports, this maneuver would have a much stronger impact on Turkmenistan. China would certainly protest, but as long as the other Eurasian Union states can compensate for the loss of Turkmen exports without interruptions, China and Xinjiang will not show outrage but will likely remain disappointed that the region cannot be free from such discord. Since Turkmenistan would not have the finances to fund the new project nor the time to bear the sanctions, the country would very likely abandon their plans with India.

If Kazakhstan decided not help Russia punish Turkmenistan then Russia would be obligated to punish both states to maintain the integrity of the union. Since Kazakhstan is still reliant on Russian energy imports to meet oil and gas demand in Astana and Almaty, without changes to the country's energy infrastructure to Astana and Almaty, Kazakhstan would be in severe risk of having an energy crisis in its population centers. If Kazakhstan can build pipeline infrastructure from the Caspian to its east, then this type of punishment from Russia would have less impact.

If the obedient members of the region were to work together to undermine Kazakhstan or Turkmenistan politically or economically, this would make the entire region more susceptible to complete instability. As Turkmenistan would not have the means to retaliate effectively, Kazakhstan would be left to prevent region-wide action against it. Kazakhstan can restrict financial outflows to the rest of the region and can cut off energy pipelines from its territory to population centers in the rest of the region. With the tension already intense in the Fergana Valley, an energy-supply shortage may send the region back into severe instability and even civil war. Understanding this scenario, if Kazakhstan were faced with regional retaliation for its support of an energy policy that undermines the Eurasian Union, the country would most likely not risk regional instability and, instead, will follow with Russia. Kazakhstan's decision-making process, however, would need more analysis; but this scenario shows that Russia's use of the Eurasian Union to control Central-Asian behavior could be effective.

Advent of New Technologies

As new energy technologies such as shale gas or renewable energy become economical enough to replace a significant portion of oil and gas demand, then Central Asia could suffer lost demand for its products. As China potentially has massive amounts

of natural gas embedded in shale, China would reduce its demand for Central-Asian energy. With its shale supply in Poland, Ukraine, Hungary, Northeastern Germany and elsewhere, Europe would not need to construct costly pipeline projects from the Caspian area. India would not have the shale supplies that China or Europe would have, and would continue to need new supplies from Central Asia; but with the added global natural gas supply that shale would create, the prices that Central Asia would sell to India would be much less than without shale gas.

If renewable energy becomes a major source of energy in the future, Central Asia would have reduced demand for its natural gas, but could compensate some of this loss with installations of wind and solar farms throughout the region. Kazakhstan has one of the most variable climates in the world with high winds in many areas in the country.³² Turkmenistan, with its vast expanse of uninhabited land, could be a source of solar energy, but not for wind power, as it is most economical in inaccessible mountainous areas.³³ Uzbekistan would be an excellent location for solar power but not for wind power.³⁴ Tajikistan and Kyrgyzstan also have high solar energy potential.³⁵ Having the auspicious wind and solar potential in the region, Central Asia, therefore, could be a source of renewable energy in the future if the technology becomes more economical or if the region needs to introduce the technology if oil and gas revenues decline.

³² Blua, Antoine." Kazakhstan: Wind-Energy Project To Harness Steppes' Potential." *RFERL*, 14 Dec. 2004, <http://www.rferl.org/content/article/1056393.html>.

³³ "Partner Countries – Turkmenistan." Inogate, http://www.inogate.org/index.php?option=com_inogate&view=countrysector&id=85&Itemid=63&lang=en.

³⁴ "Partner Countries – Uzbekistan." Inogate, http://www.inogate.org/index.php?option=com_inogate&view=countrysector&id=99&Itemid=63&lang=en.

³⁵ "Partner Countries – Kyrgyzstan." Inogate, http://www.inogate.org/index.php?option=com_inogate&view=countrysector&id=57&Itemid=63&lang=en.

Afghanistan as the Gateway to the South Asian Energy Markets

Russia and China have different priorities and want different outcomes in Afghanistan and Pakistan for their regional energy strategies to succeed. For Russia, it would prefer to have the country descend into chaos, especially after the vast majority of American forces withdraw from the region. This would deter investment in the country and would decrease the possibility of pipeline construction through Afghanistan since neither the country nor the international community can assure that any new projects would be protected from sabotage. China is increasing energy and mining operations in the country, and would not want terrorism or instability to jeopardize the viability of their enterprises, which include pipeline projects from the country to Western China. China's interests, therefore, are aligned with Central-Asia's interests to build pipelines, like TAPI, through the country; and both China and the region would likely work together to ensure that Afghanistan remains stable for pipeline construction and economic development.

China, Russia and Central Asia also have a similar strategic view of Pakistan. Russia would not want Pakistan, an unstable country in the opinion of many observers, to have the economic or political environment to promote pipeline and energy development in the country. From the southern region of Baluchistan to northern tribal stronghold of Waziristan, in many ways, Pakistan is a much more challenging environment than Afghanistan. Nonetheless, as previously shown, Central Asia and China remain mostly undeterred. For its part, China is increasing its military and economic collaboration with Pakistan, most notably with its ports in Gwadar on the Pakistani coast that laps the Arabian Sea near the Persian Gulf; so China is deeply interested in maintaining a stable Pakistan in the south and in the north, where its capital Islamabad is located. Central Asia can parlay China's interests to have a stable, tranquil Pakistan that would be able to accommodate pipeline development in addition to other projects.

Russia certainly would prefer that Pakistan remain volatile enough so that energy projects remain impractical so that Central Asia has one less outlet to bypass Russia. If Central Asia is not able to develop pipelines in Pakistan to send energy throughout South Asia, then Russia would benefit because the region would be forced into the status quo through reliance on its northern neighbor for accommodating exports. Russia would unlikely interfere with Pakistani affairs to force this scenario to happen because through its obligations in the SCO, CSTO and the NDN, in addition to its determination not to have any potential for instability in Central Asia, Russia would not prefer to send Pakistan into severe chaos.

If pipeline construction is possible in Afghanistan and Pakistan, then India would need to maintain economic growth and national political stability sufficient to allow pipeline construction to reach the most lucrative energy markets in South Asia, especially New Delhi and Mumbai. Central Asia would need to achieve this objective without major assistance from China, as its interests in energy and trade with India are less important to Chinese strategy than with Pakistan. Being a much larger economy with added financial resources to finance such a project, India is likely to work together with Central Asia without a third party. Russia could work with China to undermine such a project but would likely not risk instability or negative consequences from such efforts.

Possibility of Iran Opening to the West

As Iran is the most formidable barrier outside of Russia that can stifle Central Asian energy development, significant political or economic changes in the country could provide momentous transformations for Central Asian energy relations. Russia remains a strong Iranian ally in many different sectors outside energy and would be greatly weakened globally in many different regards. Since Central Asian states have been

resistant to developing broader relations with Iran, mainly from resistance from Europe and America, Central Asian interests would likely not be greatly harmed if significant changes happen in Iran. If the status quo remains and Iran remains under the control of the Islamic Republic, then Central Asia will continue to have great difficulty with engaging with the West by land and through the Caspian.

In the opposite scenario, a regime change in Iran could bring many outcomes. If Iran has its energy infrastructure greatly destroyed during the course of its chaos, then Central Asia cannot realistically have Iran as an energy partner since the country would be rebuilding long before it could transmit Central-Asian energy. Central Asia has little experience with nation building or leading infrastructure projects, so it would not be in a position to help Iran. If, however, political changes in Iran are peaceful and the regime becomes less loyal to Russia, especially on the Caspian-Sea question, then Central Asia could finally have the ability to develop the Caspian Sea without political pressure, depending on how Russia engages the south Caspian in this scenario. With changes in Iran, Central Asia has little to lose but much to gain. If Russia loses a loyal Iran that supports Russia on Caspian-Sea demarcation, then Russia could lose a main barrier to Central-Asian energy development westward.

As shown in the previous scenarios, the evolution of Central Asia's neighbors and of energy technology will be profound but is so far unknown. Central Asia's former hegemony, aspiring partners and stubborn roadblocks to growth show little signs of actively changing their policies. Russia remains adamant on preserving its influence. South Asia is pursuing deeper relations to their north, and Iran remains Central Asia's barrier to the south. For Central-Asian governments and those that wish to have a presence in this region, planning possible scenarios for future Central-Asian engagement are paramount for a successful long-term relationship with this region. Whatever the

future holds for Central Asia, the region will certainly be greatly influenced by and will have profound impact on the world in the twenty-first century.

Chapter 6: Closing Remarks

The states that make up Central Asia struggled to emerge from their Soviet past. Their political and economic transitions as independent states have been filled with conflict, unrest and uncertainty. Kazakhstan and its president Nursultan Nazarbaev became in control of their oil and gas but not of the pipeline routes that send their oil and gas abroad and that enable the country's economy to survive. Turkmenistan, with its dictatorial president Niyazov, wanted to project an appearance of "neutrality" so that Niyazov could solidify control of the country but resulting in worsening relations with Russia and greatly disrupted energy exports. Uzbekistan found itself dealing with the security and stability problems of sectarian, ethnic and other forms of extremism that were originally Moscow's responsibility. Other internal and self-inflicting problems, like corruption, financial mismanagement and political brinksmanship, have further hampered this region from using its energy resources to its full potential.

This region has the energy resources, geography and existing pipeline infrastructure to become a prominent region for global energy relations and broader global relations. Evolutions from Soviet satellites to fully autonomous, successful states take much time to complete; and the political and economic changes in Central Asia have been gradual and will often encompass multiple generations. No one should expect any Central-Asian state to become a superpower or an energy exporter equal to Russia or Saudi Arabia. Nonetheless, energy has been the bridge that has compelled the various states and other factions to engage Central Asia and to gain strategic geopolitical and geoeconomic advantages at the expense of other rivals.

Though their past may have been closely tied with Russia, Central-Asian states have no interest having their national interests, especially their energy reserves,

controlled by a faraway power. The twenty-first century represents a unique opportunity for these countries to use their sovereignty and resources for the benefit of their own societies, which was not even possible for at least a century. Recent developments in this region show that the three main energy-reserve states are eager to work with the international community and have sought to diversify and to hedge their political and economic circumstances in order to benefit optimally from newfound international engagement.

Regardless of how the world will change in this century, Central Asia will certainly be a discrete and integral influence on the political and economic development of the international system not only from Central-Asian activities but also from the decisions and actions of global powers in and around the region. Greater energy cooperation will most likely be a facilitator of closer relationships, like in military or diplomatic bonds, that will shape strategy and events throughout Asia in this century; and the policies and preferences of Central-Asian states will have much greater impact on the future of the international system. Regardless of how Central Asia performs in its first few decades as members of the international community, Central Asia will be a crucial factor in the strategies of groups, firms, multinational corporations and countries that have a presence in Asia, the former Soviet Union and in energy markets. Central Asia's future path is not certain, but, because the region has the ability and the drive to engage the world, its energy resources will make Central Asia vital to understanding geopolitics and geoeconomics for this century.

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